UCLA

2009 - 2010

ANNUAL FINANCIAL REPORT

ANNUAL FINANCIAL REPORT

HIGHLIGHTS

UCLA

UNIVERSITY OF CALIFORNIA, *LOS ANGELES*

CAMPUS AND FINANCIAL HIGHLIGHTS

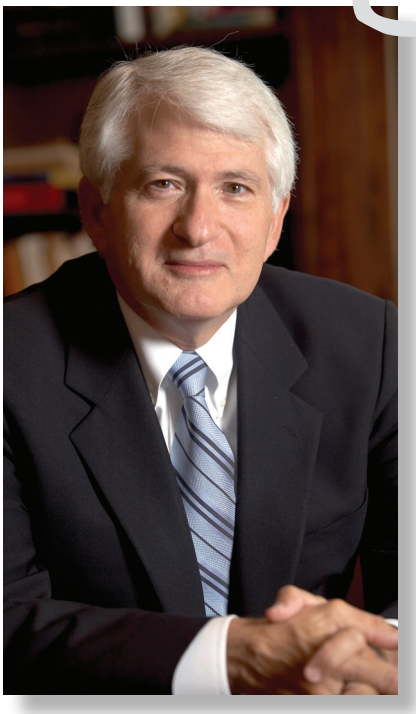
At June 30, 2010 and 2009 *(in thousands of dollars)*	2010	2009
CAMPUS LAND AREA	419 acres	419 acres
ENROLLMENT - FALL QUARTER		
Undergraduates	26,690	26,539
Graduates, and Interns and Residents	13,301	13,116
EMPLOYEE COUNT		
Full-Time Equivalent (includes more than 7,000 casual and student employees)	29,348	31,024
NET ASSETS:		
Beginning of Year	$ 5,145,222	$ 4,943,000
End of Year	$ 5,601,758	$ 5,145,222
ASSETS:		
Total Current Assets	$ 2,765,192	$ 2,202,344
Total Noncurrent Assets	4,803,244	4,755,213
	$ 7,568,436	**$ 6,957,557**
LIABILITIES:		
Total Current Liabilities	$ 875,559	$ 888,300
Total Noncurrent Liabilities	1,091,119	924,035
	$ 1,966,678	**$ 1,812,335**
REVENUE:		
Operating Revenue	$ 3,921,863	$ 3,588,940
Nonoperating Revenue (Core Activities)	892,131	791,133
	$ 4,813,994	**$ 4,380,073**
Principal Sources of Operating Revenue:		
Student Tuition and Fees	*$ 445,373*	*$ 401,513*
Grants and Contracts	*$ 921,477*	*$ 837,172*
Sales and Services	*$ 2,502,590*	*$ 2,298,617*
Principal Sources of Nonoperating Revenue:		
State Educational Appropriations	*$ 601,155*	*$ 521,823*
EXPENDITURES:		
Operating Expense	$ 4,307,078	$ 4,289,982
Nonoperating Expense (Core Activities)	20,349	1,588
	$ 4,327,427	**$ 4,291,570**
Principal Operating Expenditures:		
Salaries and Wages	*$ 2,278,595*	*$ 2,243,390*
Benefits	*$ 503,018*	*$ 463,603*
Supplies and Materials	*$ 460,137*	*$ 496,647*
Other Operating Expenditures	*$ 725,120*	*$ 726,206*

UCLA

Letter from Chancellor Gene D. Block

The 2009-10 academic year was marked by tremendous achievements throughout the campus community. Despite a challenging budgetary environment, our faculty, staff and students — in partnership with alumni and friends — moved UCLA forward in exciting and significant ways.

These accomplishments were realized during a year in which UCLA felt the full impact of the recession and California's resulting budget crisis. Due to reductions in funding from the state, the campus faced a shortfall of more than $117 million while also absorbing increases in employee benefits and other costs not funded by the state.



Todd Ceney/UCLA Photography

We responded with measures that helped close the funding gap in the short term, and we began implementing longer-term, structural changes to plan for a future that relies less on volatile state support. We imposed campus-wide 5 percent budget cuts and targeted cuts in certain areas. Faculty and staff took temporary salary reductions in the form of a one-year-furlough program imposed by the University of California, and the continuing decline in state funding prompted the University of California Board of Regents to approve a significant increase in student fees.

At the same time, we conducted a thorough review of our academic programs with the goal of streamlining majors, reducing unnecessary units and courses, and helping students graduate in a timely manner. We also pursued initiatives that will produce new revenue streams, including an enhanced emphasis on translational research, which will deliver more of our faculty's inventions into the marketplace and potentially lead to licensing and royalty revenues for UCLA.

UCLA generated $1.1 billion in competitive grants and research awards, a record for our campus and a tremendous statement about the breadth and depth of our research enterprise. The Ronald Reagan UCLA Medical Center was recognized by U.S. News & World Report as one of the nation's top three hospitals and, for the 20th consecutive year, the best in the Western United States.

Our exceptional faculty again earned some of the most prominent awards and honors, including election to the National Academy of Sciences, American Academy of Arts and Sciences, and Institute of Medicine; five earned Sloan Research Fellowships and four received Guggenheim Fellowships.

In 2009-10, UCLA brought greater focus to our widespread engagement with Los Angeles. The UCLA Volunteer Center, which opened in September, connects students, staff and faculty with service opportunities throughout Greater Los Angeles. Its first major program, UCLA Volunteer Day, saw 4,300 Bruins participating in beautification and repair projects at schools, parks, beaches and other local venues. We also launched the Luskin Center for Innovation, a multidisciplinary think tank housed in the School for Public Affairs that will apply UCLA's intellectual capital to critical issues facing our region.

In cooperation with the Los Angeles Unified School District and community partners, we opened the UCLA Community School. The school provides an innovative

UCLA

Letter from Chancellor Gene D. Block

K-12 curriculum for the children of one of Los Angeles' most underserved neighborhoods, and we hope it will be a model for other communities across the United States.

In fall 2009, UCLA welcomed 4,472 freshmen from a pool of 55,708 applicants — the most in the nation — and 3,423 transfer students from 16,792 applicants. Freshmen came from 45 states and territories, and 36 countries; transfer students came from 16 states and territories, and 23 countries.

Throughout the year, our students continued to remind us of their talent, compassion and creativity. Matthew Clawson received the prestigious Marshall Scholarship, which pays for graduate study at any United Kingdom university. For their outstanding commitment to public service, four students received Charles E. Young Humanitarian Awards: Abdallah Jadallah, for founding the UCLA Community Program Office's Food Closet, a food pantry for low-income students; Benjamin Moore, for working with Burma Community Builders, which aids Burmese refugees; and Evelyn Wang and Mark Dakkak, for leading Project Literacy, which helps children and adults learn to read.

Students also built upon UCLA's excellence in intercollegiate athletics, earning NCAA championships in softball and women's gymnastics, and bringing UCLA's total number of national titles to 106, more than any other university.

Our success in each of these areas was due in great measure to the generous support of our friends in Los Angeles and around the country. UCLA received more than $379 million in gifts and pledges in the past year — an especially impressive total given the global economic picture. Among the landmark gifts and pledges we received was $50 million from Professor Emeritus Paul Terasaki.

During ceremonies throughout the academic year, we presented UCLA Medals to distinguished individuals who have made extraordinary contributions to their professions and to our society. Honorees in 2009-10 were Eugene Rosenfeld, a philanthropist, businessman and UCLA alumnus; Ban Ki-moon, secretary-general of the United Nations; Dr. Gerald Levy, dean emeritus of the David Geffen School of Medicine; and Henry Samueli, co-founder of Broadcom, philanthropist and UCLA alumnus.

As we begin UCLA's ninth decade, our remarkable institution has never been more deeply engaged in serving California and our society through our world-class teaching, research and service. In the face of significant budgetary challenges, we continued to demonstrate unequivocally the importance of UCLA's innovation, creativity and engagement in transforming lives and communities throughout our society.

Gene D. Block

Chancellor

"As we begin UCLA's ninth decade, our remarkable institution has never been more deeply engaged in serving California and our society through our world-class teaching, research and service."

MANAGEMENT'S DISCUSSION AND ANALYSIS

UCLA

The objective of Management's Discussion and Analysis (MD&A) is to give readers an overview of the financial position and operating activities of the University of California, Los Angeles (UCLA), for the fiscal year ended June 30, 2010, with selected comparative information for the year ended June 30, 2009. This discussion should be read in conjunction with the financial statements and the accompanying notes.

USING THIS ANNUAL REPORT

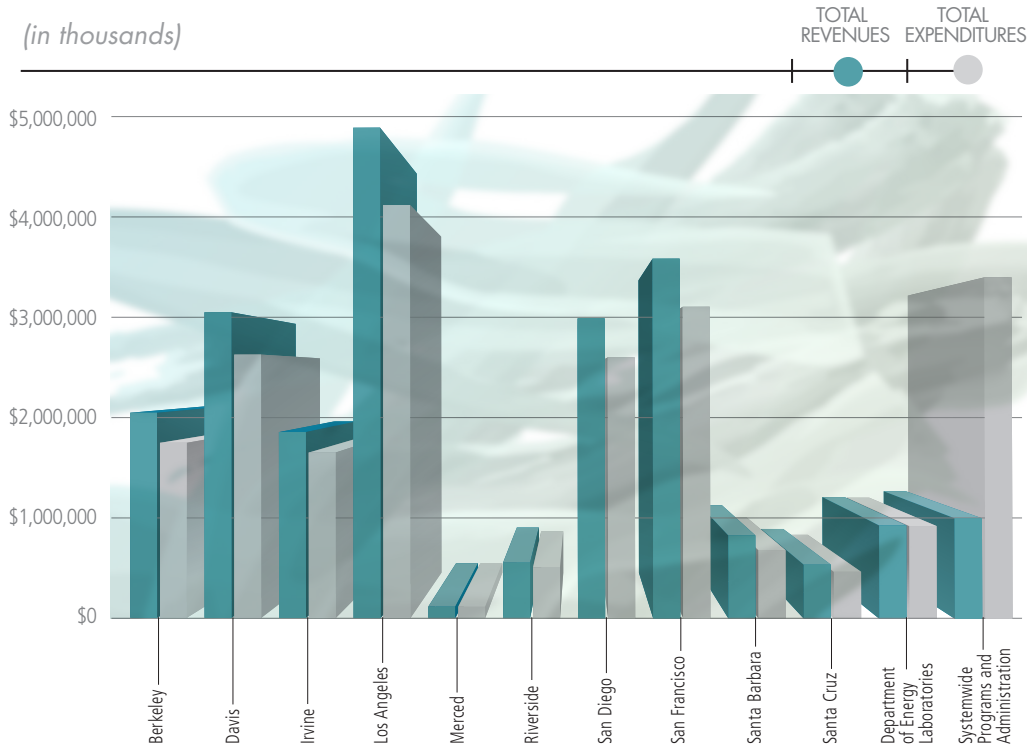
UCLA is one of 10 campuses within the University of California system. The UCLA Annual Financial Report, while not separately audited, is prepared from the official University of California records and accounts, which are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board (GASB). The three basic financial statements in this report — the statement of net assets; the statement of revenues, expenses and changes in net assets; and the statement of cash flows — encompass the UCLA campus and its discretely presented component, The UCLA Foundation. However, the MD&A and the Notes to Financial Statements focus only on the campus; information relating to The UCLA Foundation can be found in their separately issued financial statements.

THE UNIVERSITY OF CALIFORNIA

The University of California system (the University) is a public, state-supported institution. The University's financial statements for the University, the various campus foundations and the University of California Retirement System are presented as a discrete component of the state's general-purpose financial statements. The University encompasses 10 campuses, which include five medical schools and medical centers, three law schools and the statewide Division of Agricultural and Natural Resources. The University also operates and manages three national laboratories for the U.S. Department of Energy. The audited, consolidated financial statements of the University of California are available at http://www.universityofcalifornia.edu/finreports/

The following chart reflects the operating and nonoperating revenues and expenditures of the various campuses and laboratories, along with systemwide programs and administration, for the 2009-10 fiscal year:

REVENUE AND EXPENDITURES, ALL CAMPUSES



MANAGEMENT'S *DISCUSSION AND ANALYSIS*

THE LOS ANGELES CAMPUS OF THE UNIVERSITY OF CALIFORNIA

UCLA was founded in 1919 and is financially the largest campus in the 10-campus University of California system, with an annual budget that exceeds $4.8 billion. The financial statements included in this annual report encompass the following:

Campus – The Los Angeles campus spans 419 acres in Westwood and is devoted to undergraduate and graduate scholarship serving almost 40,000 students in the following schools:

COLLEGE OF LETTERS AND SCIENCE
Humanities
Life Sciences
Physical Sciences
Social Sciences
Undergraduate Education

HEALTH SCIENCES PROGRAMS
David Geffen School of Medicine at UCLA
School of Dentistry
School of Nursing
School of Public Health

PROFESSIONAL SCHOOLS
School of the Arts and Architecture
Graduate School of Education & Information Studies
Henry Samueli School of Engineering and Applied Science
School of Law
UCLA Anderson School of Management
School of Public Affairs
School of Theater, Film and Television

During the 2009-10 academic year, UCLA delivered more than 3,200 different undergraduate and graduate courses each quarter and supported more than 120,000 course enrollments per quarter in 160 different subject areas. Known for academic excellence, many of UCLA's programs are rated among the best in the nation, and some are among the best in the world. Few universities offer the range and diversity of academic programs enjoyed by UCLA students.

The campus' mission also includes a strong dedication to research and public service. The UCLA community focuses on environmental issues, economic and social policy concerns, public education reform, healthcare costs and medical advances. More than 4,000 research projects are being conducted on campus at any given time. For 2010, UCLA expenditures for research exceeded $676 million. The most current statistics from the National Science Foundation's Survey of Federal Science and Engineering Support to Universities, Colleges, and Nonprofit Institutions, published in October 2009 for the fiscal year 2007, show that UCLA ranked fifth in Federal Science and Engineering obligations, with a total of $515 million.

UCLA Extension offers the public more than 4,100 continuing education courses annually, covering professional and career development, academic enrichment and personal growth.

UCLA employs more than 29,000 faculty, administrators and staff (including casual and student employees) and spent $2.78 billion in compensation costs for the fiscal year ended June 30, 2010. UCLA's employees are distinguished for their contributions to education, research and public service. Nobel Prizes have been awarded to five faculty members, in chemistry, physics and medicine (and to six alumni, in economics and chemistry, with one alumnus receiving the Nobel Peace Prize in 1950). UCLA faculty have also received 10 National Medals of Science and a Fields Medal, and the Presidential Medal of Freedom has been given to three faculty and three alumni.

UCLA Live (performing arts), the Fowler Museum at UCLA, the UCLA Hammer Museum and the Geffen Playhouse make UCLA the leading arts and cultural center of the West, providing both academic programs and a wide array of public programming.

As of fall 2009, UCLA's on-campus physical plant included five new buildings under construction, along with 192 existing buildings (including 14 parking structures and seven parking kiosks). Off campus, UCLA owns or manages 137 buildings (including three parking structures) and has 87 existing building leases for various programmatic activities. UCLA's buildings include 13 libraries, housing more than 9 million volumes; a cogeneration power plant; on-campus student housing for more than 9,000 students; off-campus student and faculty apartments; and more, including the UCLA Conference Center in Lake Arrowhead.

UCLA Health System – Comprised of Ronald Reagan UCLA Medical Center, Santa Monica-UCLA Medical Center and Orthopaedic Hospital, Resnick Neuropsychiatric Hospital at UCLA, Mattel Children's Hospital UCLA, and the UCLA Medical Group with its wide-reaching system of primary-care and specialty-care offices throughout the region, the UCLA Health System is among the most comprehensive and advanced healthcare systems in the world. It has been named the "Best Hospital in the West" by U.S. News & World Report for 20 consecutive years. The Medical Center is the primary teaching hospital for the David Geffen School of Medicine at UCLA.

ASUCLA – The Associated Students of UCLA (ASUCLA) operates the UCLA Store and oversees student activities for the Los Angeles campus pursuant to the Statement of Understanding of ASUCLA's Relationships with the University, dated June 28, 1974. ASUCLA's financial data, representing total revenue of $58.4 million for the fiscal year ended June 30, 2010, has also been included to reflect the total financial activity of the UCLA campus.

The UCLA Foundation – The Foundation is a nonprofit, public-benefit corporation organized for the purpose of accepting and administering the full range of private contributions for the campus. Contributions are held by the Foundation until such time as funds are needed and are then transferred to the campus; at which time, the campus records the gift as revenue. In accordance with GASB Statement No. 39, the Foundation's financial activity is discretely recorded on the campus' financial statements under a separate column titled "Foundation."

Retiree Health Benefits Trust – The University established the University of California Retiree Health Benefit Trust (UCRHBT) to allow certain University locations and affiliates, including the University of California, Los Angeles, to share the risks, rewards and costs of providing for retiree health benefits and to accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. The Regents serves as Trustee of UCRHBT and has the authority to amend or terminate the Trust.

The UCRHBT provides retiree health benefits to retired employees of the campus. Contributions from the campus to the UCRHBT are effectively made to a cost-sharing single-employer health plan administered by the University. The campus is required to contribute at a rate assessed each year by the UCRHBT. As a result, the campus' required contributions are recognized as an expense in the statement of revenues, expenses and changes in net assets.

Retirement Plan – The University of California Retirement Plan (UCRP) provides retirement benefits to retired employees of the University of California, Los Angeles. Contributions from the campus to the UCRP are effectively made to a cost-sharing single-employer-defined benefit pension plan administered by the University. The campus is required to contribute at a rate assessed each year by the UCRP. As a result, the campus' required contributions, if any, are recognized as an expense in the statement of revenues, expenses and changes in net assets.

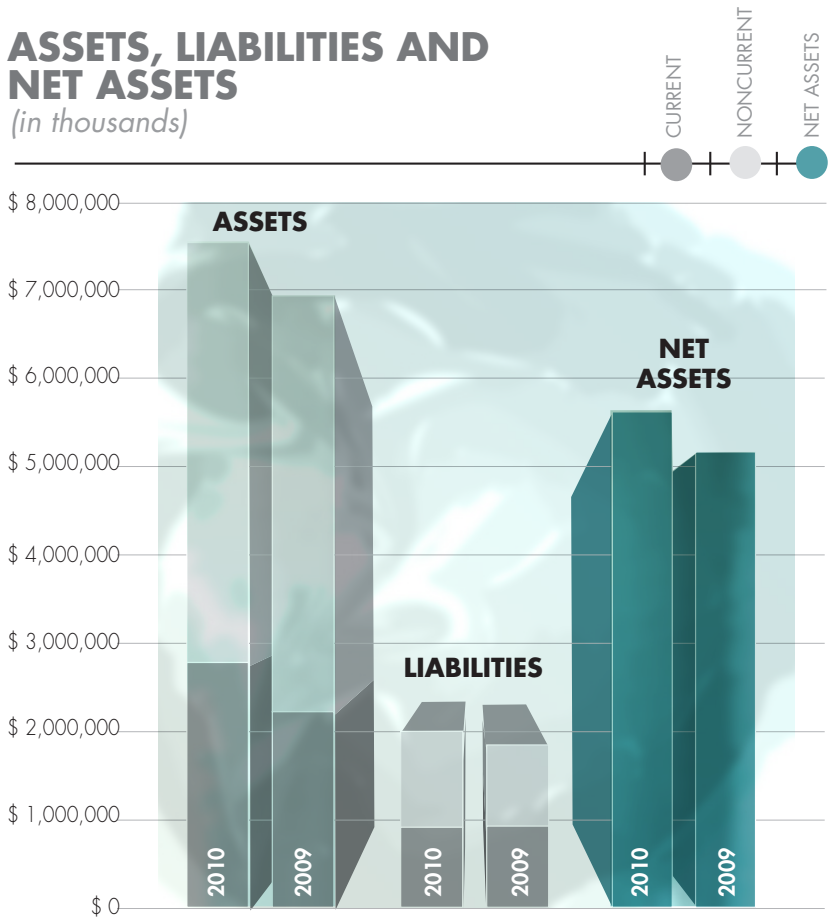
MANAGEMENT'S *DISCUSSION AND ANALYSIS*

An Overview – While UCLA's financial information concerning assets, liabilities, revenues and core activity expenditures is discussed in further detail in the subsequent sections of the MD&A, the following table reflects the composition of UCLA for 2010, listing enrollment figures, full-time equivalent employee figures and operating expenses by organization.

(dollars in thousands)	Undergraduates	Graduates, Interns and Residents	Full-Time Equivalent (Includes Students)	Salaries and Wages	Other Expenditures	Total Expenditures
Organizations	**Fall Enrollment**		**Employees**	**Operating Expenses**		
College of Letters and Science	21,437	2,747	3,434	$ 249,508	$ 133,651	$ 383,159
School of the Arts and Architecture	931	402	479	31,049	19,193	50,242
School of Dentistry	-	505	403	32,950	20,795	53,745
School of Education & Information Studies	-	934	444	30,644	16,548	47,192
School of Engineering and Applied Science	3,193	1,625	847	64,000	44,705	108,705
School of Law	-	1,086	249	25,916	13,963	39,879
School of Management	-	1,839	385	42,114	28,805	70,919
School of Medicine	-	2,265	6,955	647,485	407,845	1,055,330
School of Nursing	245	343	148	11,857	5,931	17,788
School of Public Health	-	644	339	28,252	31,299	59,551
School of Public Affairs	-	487	146	12,351	4,811	17,162
School of Theater, Film and Television	370	373	246	16,283	8,236	24,519
Basic Biomedical Sciences	514	51	194	13,773	9,749	23,522
University Extension	-	-	444	34,079	31,419	65,498
Medical Center	-	-	7,111	577,185	677,055	1,254,240
All Others	-	-	7,524	461,149	319,820	780,969
Subtotal Organizations	26,690	13,301	29,348	2,278,595	1,773,825	4,052,420
Depreciation Expense					237,387	237,387
Other Operational Expenditures					17,271	17,271
Total	26,690	13,301	29,348	$ 2,278,595	$ 2,028,483	$ 4,307,078

THE CAMPUS' FINANCIAL POSITION

The statement of net assets presents UCLA's financial position at the end of the fiscal year. It displays the assets and liabilities of the campus, accounted for on a local level. The difference between assets and liabilities is net assets, representing a measure of the current financial condition of the campus. At June 30, 2010, the campus' assets were $7.6 billion, liabilities were $2 billion and net assets were $5.6 billion, an increase of $457 million from 2009.



The major components of the assets, liabilities and net assets, compared with the prior year, are as follows:

(dollars in thousands)	2010	2009	Change
ASSETS			
Cash and short-term investments	$ 2,066,994	$ 1,577,459	$ 489,535
Accounts receivable, net	599,049	533,698	65,351
Capital assets, net	4,645,628	4,615,930	29,698
Other assets	256,765	230,470	26,295
Total assets	$ 7,568,436	$ 6,957,557	$ 610,879
LIABILITIES			
Current liabilities	$ 875,559	$ 888,300	$ (12,741)
Long-term debt	855,502	729,239	126,263
Other noncurrent liabilities	235,617	194,796	40,821
Total liabilities	$ 1,966,678	$ 1,812,335	$ 154,343
NET ASSETS			
Invested in capital assets, net of related debt	$ 3,769,133	$ 3,865,710	$ (96,577)
Restricted:			
Nonexpendable	-	-	-
Expendable	317,418	216,980	100,438
Unrestricted	1,515,207	1,062,532	452,675
Total net assets	$ 5,601,758	$ 5,145,222	$ 456,536

The Campus' Assets

Long-term investments, the campus' portion of pooled debt and the retirement system are accounted for on a systemwide basis through the Office of the President and are not reflected in UCLA's stand-alone financial statements. UCLA does participate in a temporary investment pool that is administered by the Office of the President. The balance in this pool is reflected as part of the campus' assets on UCLA's financial statements under cash and investments. These funds are primarily invested in U.S. Treasury securities, commercial paper and short-term corporate notes with cost approximating market value. The amount invested in this short-term investment pool at June 30, 2010, was $2 billion, an increase of $468 million from the previous year, which was primarily due to the timing of cash needs from one year to the next.

Accounts receivable increased $65.3 million or 12% from 2009. The increase is primarily due to an increase in receivables from the state and federal governments of $22.7 million, an increase in patient care receivables of $14.6 million and an increase in student fees receivable of $28 million, in addition to increased receivables from investment activity, local and private grants and contracts.

Capital assets, net continues to increase in order to provide the facilities necessary to support UCLA's teaching, research and public service mission and for patient care. Additions to capital assets of $270 million included $294 million for new buildings and improvements to existing buildings, $90 million for new equipment, $35 million for libraries and collections, $4 million for special collections (including rare books), $2 million for land, $5 million for intangible assets and a decrease of $160 million for construction in progress. These additions were offset by the disposal of $85 million of capital assets (mainly equipment) in the ordinary course of business.

Other assets include inventories ($41.5 million), investments held by trustees ($5.8 million), pledges, notes and mortgages receivable ($97.5 million) and other assets ($111.9 million).

The Campus' Liabilities

Campus liabilities increased by $154 million or 8.5% to a total of $1.97 billion principally as a result of debt issued to finance capital expenditures for our healthcare facilities.

Current liabilities consist largely of accounts payable to vendors for goods and services, accrued compensation costs due to employees for services performed, deferred revenue and current portions of long-term debt. Overall accounts payable decreased primarily due to a large disputed construction payment being held in 2009 that was resolved in 2010. Accrued salaries and benefits increased $10.5 million, the majority of which is directly attributed to the reinstatement of both employee and employer contributions to the University's retirement plans for 2010. Deferred revenues increased $14.8 million, primarily due to activity and rate increases for summer session of $8 million and auxiliary enterprises of $4.7 million.

Long-term debt, used for capital expenditures, is financed by a variety of sources, including University equity contributions, federal and state support, revenue bonds, certificates of participation, bank loans and leases. Commercial paper provides interim financing. The campus' portion of pooled debt is accounted for on a University-wide basis and is excluded from these statements. UCLA debt used to finance capital assets grew by $126.3 million. This increase is attributable to a $113.4 million increase in revenue bonds issued for the Medical Center and a $20.9 million increase in faculty/staff mortgages.

Other noncurrent liabilities (including federal refundable loans of $56 million for 2010 and $54 million for 2009) increased by $40.8 million in 2010. The imposed mandatory furlough left employees with $26.5 million of accrued vacation. Derivative instruments, amounting to $52.7 million in 2010 and $39.9 million in 2009, increased $12.8 million.

The Campus' Net Assets

Net assets represent the residual interest in the campus' assets after all liabilities are deducted. During the year, the campus' net assets increased by $456 million, bringing the year-end total to $5.6 billion. Net assets are reported in the following categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted.

The portion of net assets invested in capital assets — net of accumulated depreciation and related outstanding debt used to finance the acquisition, construction or improvement of these capital assets — is $3.8 billion in 2010 compared to 3.9 billion in 2009. The decrease is due mainly to a downward adjustment of prior year estimates.

The campus reflects a zero balance in restricted nonexpendable net assets, as endowments and charitable remainder trusts are accounted for on a systemwide basis and are excluded from UCLA's financial statements.

Restricted expendable net assets, which totaled $317 million in 2010, up from $217 million in 2009, are subjected to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include support received from gifts, appropriations and grants or contracts for specific programs or capital projects; trustee-held investments; or other third-party receipts. In 2010, the increase in restricted, expendable funds is principally related to revenue bonds that are restricted to specific building projects.

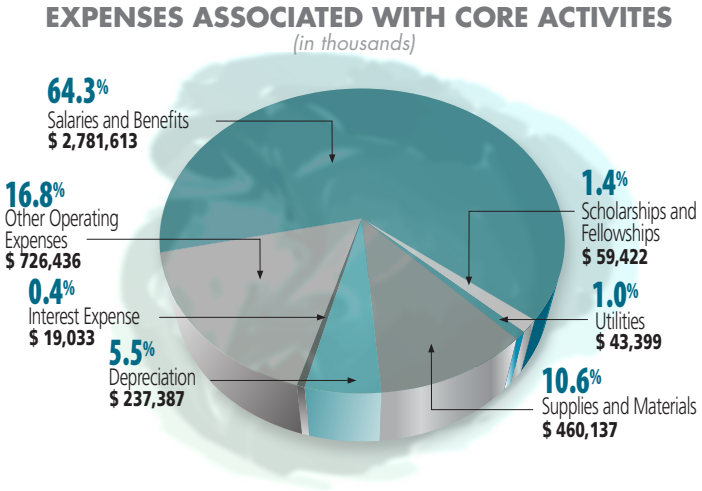
Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, substantially all of these net assets are designated internally and are allocated for academic and research initiatives or programs, for capital purposes, or for other purposes. As of June 30, 2010, unrestricted net assets totaled $1.5 billion, an increase of $453 million over 2009, which was principally due to the Medical Center and various School of Medicine Compensation Plan fund's reported increase of $307 million.

THE CAMPUS' RESULTS OF OPERATIONS

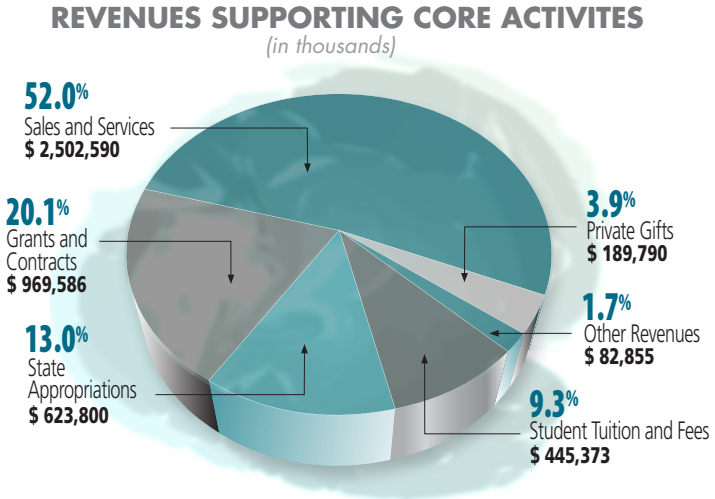
The statement of revenues, expenses and changes in net assets is a presentation of the campus' operating results for the year. It indicates whether the financial condition has improved or deteriorated. In accordance with GASB requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the campus, including state educational appropriations, private gifts and investment income, are mandated to be recorded as nonoperating revenues.

A major financial strength of UCLA includes a diverse source of revenues, including those from the State of California, student fees, federally sponsored grants and contracts, medical centers, private support and self-supporting enterprises. The variety of fund sources has become increasingly important over the past several years, given the effects of the state's financial crisis that required reductions in both instructional and non-instructional programs. The state is continuing its work to resolve its serious financial situation in which expenditures have continued to exceed revenues.

The following chart displays the categories of both operating and nonoperating revenues that support core activities, as of June 30, 2010:



The following chart displays the portion of operating and nonoperating expenses related to core activities of the campus, as of June 30, 2010:



MANAGEMENT'S *DISCUSSION AND ANALYSIS*

Below is a summarized comparison of the operating results for 2010 and 2009, arranged in a format that matches the revenue supporting the core activities of UCLA with the expenses associated with core activities:

	YEAR ENDED JUNE 30, 2010			YEAR ENDED JUNE 30, 2009			
(dollars in thousands)	Operating	Nonoperating	Total	Operating	Nonoperating	Total	Change
REVENUES							
Student tuition and fees, net	$ 445,373	$ -	$ 445,373	$ 401,513	$ -	$ 401,513	$ 43,860
State appropriations	-	623,800	623,800	-	551,553	551,553	72,247
Grants and contracts	921,477	48,109	969,586	837,172	31,677	868,849	100,737
Sales and services, net	2,502,590	-	2,502,590	2,298,617	-	2,298,617	203,973
Private gifts	-	189,790	189,790	-	184,907	184,907	4,883
Other revenues, net	52,423	30,432	82,855	51,638	22,996	74,634	8,221
Revenues supporting core activities	3,921,863	892,131	4,813,994	3,588,940	791,133	4,380,073	433,921
EXPENSES							
Salaries and benefits	2,781,613	-	2,781,613	2,706,993	-	2,706,993	74,620
Scholarships and fellowships	59,422	-	59,422	68,599	-	68,599	(9,177)
Utilities	43,399	-	43,399	52,257	-	52,257	(8,858)
Supplies and materials	460,137	-	460,137	496,647	-	496,647	(36,510)
Depreciation	237,387	-	237,387	239,280	-	239,280	(1,893)
Interest expense	-	19,033	19,033	-	1,588	1,588	17,445
Other expenses	725,120	1,316	726,436	726,206	-	726,206	230
Expenses associated with core activities	4,307,078	20,349	4,327,427	4,289,982	1,588	4,291,570	35,857
Income (loss) from core activities	(385,215)	871,782	486,567	(701,042)	789,545	88,503	398,064
Transfers to (from) core activities	-	(17,450)	(17,450)	-	23,351	23,351	(40,801)
Net income (loss) from core activities	$ (385,215)	$ 854,332	469,117	$ (701,042)	$ 812,896	111,854	357,263
OTHER NONOPERATING ACTIVITIES							
Net depreciation in fair value of investments			-			-	-
Gain (loss) on disposal of capital assets, net of proceeds			(2,348)			(5,816)	3,468
Income (loss) before other changes in net assets			466,769			106,038	360,731
OTHER CHANGES IN NET ASSETS							
State capital appropriations			2,025			54,535	(52,510)
Capital gifts and grants			50,023			55,933	(5,910)
Transfers to (from) capital accounts			(62,281)			(14,284)	(47,997)
Increase in net assets			456,536			202,222	254,314
NET ASSETS							
Beginning of year			5,145,222			4,943,000	202,222
End of year			$ 5,601,758			$ 5,145,222	$ 456,536

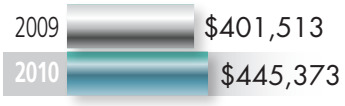
Revenues Associated with Core Activities

Revenues to support UCLA's core activities, including those classified as nonoperating revenues, grew from $4.4 billion in 2009 to $4.8 billion in 2010, an increase of $434 million. State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of UCLA. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country. Gifts to the campus allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Sales and service revenue includes the UCLA Health System, educational activities and auxiliary enterprises such as student housing, food services operations and parking.

Categories of revenues, as well as activity trends, are described below:

Revenues *(dollars in thousands)*	**2010**	**Percent of Total**	**2009**	**Percent of Total**	**Change**	**Change Over Prior Year**
Student tuition and fees, net	$ 445,373	9.25%	$ 401,513	9.17%	$ 43,860	10.9%
State appropriations	623,800	12.96%	551,553	12.59%	72,247	13.1%
Grants and contracts	969,586	20.14%	868,849	19.84%	100,737	11.6%
Sales and services, net	2,502,590	51.99%	2,298,617	52.48%	203,973	8.9%
Private gifts	189,790	3.94%	184,907	4.22%	4,883	2.6%
Other revenues, net	82,855	1.72%	74,634	1.69%	8,221	11.0%
Total	$ 4,813,994	100.00%	$ 4,380,073	100.00%	$ 433,921	9.9%

Student Tuition and Fees revenue, net of scholarship allowances, increased $43.9 million or 10.9% in 2010. The student population grew 0.8% on a year-over-year basis, with enrolled students of 39,991 and 39,655 in the Fall of 2009-10 and 2008-09, respectively. Resident and non-resident undergraduate and graduate student fees were increased by 9% effective summer 2009 and 15% effective winter 2010. The increases in student tuition and fees over the past several years have generally been necessitated by growth in the demand for resources that has outpaced state educational appropriations. The additional mid-year increase in tuition was in response to the reduction in state educational appropriations. Professional school fee increases varied by discipline, although most degree program fees rose substantially. Consistent with past practices, approximately one-third of the revenue generated from these fee increases was used for financial aid to mitigate the impact on needy students. This is reflected in the 20.5% increase in scholarship allowances. Summer Sessions had a 13.6% increase in revenue due to various fee increases, whereas University Extension remained relatively even with the prior year.



Student Tuition and Fees, net *(dollars in thousands)*	**2010**	**2009**	**Change**	**Change Over Prior Year**
Student tuition and fees	$ 501,634	$ 434,806	$ 66,828	15.4%
Summer Sessions	34,815	30,660	4,155	13.6%
University Extension	66,983	67,200	(217)	-0.3%
Scholarship allowance	(158,059)	(131,153)	(26,906)	20.5%
Total	$ 445,373	$ 401,513	$ 43,860	10.9%

State Appropriations consists of two components: educational and financing.

State Appropriations *(dollars in thousands)*	2010	2009	Change	Change Over Prior Year
State educational appropriations	$ 601,155	$ 521,823	$ 79,332	15.2%
State financing appropriations	22,645	29,730	(7,085)	-23.8%
Total	$ 623,800	$ 551,553	$ 72,247	13.1%

Educational appropriations from the State of California were $601 million, $522 million and $643 million in 2010, 2009 and 2008, respectively. State educational appropriations increased in 2010 by $79.3 million and decreased by $120.9 million in 2009 and include general fund allocations and federal pass-through funds as follows:

(dollars in thousands)	2010	2009	2008
State general support	$ 519,428	$ 475,476	$ 642,755
Federal pass-through stimulus funds	81,727	46,347	-
State educational appropriations	$ 601,155	$ 521,823	$ 642,755

The state's fiscal crisis in 2009 and 2010 necessitated special session actions by the legislature and the governor that led to mid-year budget reductions, both one-time and permanent, that took place over an 18-month period. Because of the complexity and timing of these actions, it is important to look at year-over-year changes over a two-year, rather than one-year, period. Thus, while the one-year change between 2009 and 2010 appears to reflect an increase in state educational appropriations, when compared to 2008, there was actually a decline of more than $40 million over the two-year period. This decline is a direct result of the particularly weak economic conditions in California. State resources for enrollment growth, faculty and staff increases, and other inflationary cost increases were not available, leading to an increase in student tuition and fees.

State financing appropriations are directly related to required rental payments under lease-purchase agreements with the State of California. The majority of these funds were received as payment to the University as a bond holder of State Public Works Board (SPWB) lease revenue bonds series 2002A purchased for the UCLA replacement hospital. During 2010, $7 million in surplus SPWB funds were applied to debt servicing for various SPWB capital lease payments resulting in a decrease of financing appropriations.

Grants and Contracts revenue, which come from federal, state, private and local sources, increased by $100.7 million during 2010 to $969.6 million. The majority of the increase was in federal grants made possible by $49.6 million from the American Recovery and Reinvestment Act of 2009 (ARRA) and $12.8 million from Pell Grants.

Grants and Contracts *(dollars in thousands)*	**2010**	**2009**	**Change**	**Change Over Prior Year**
Federal	$ 686,798	$ 604,236	$ 82,562	13.7%
State	61,564	56,011	5,553	9.9%
Private	184,062	168,475	15,587	9.3%
Local	37,162	40,127	(2,965)	-7.4%
Total	$ 969,586	$ 868,849	$ 100,737	11.6%

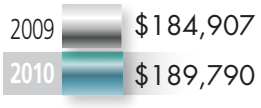
Federal grant and contract revenue — including facilities and administration cost recovery of $148.6 million and $132 million in 2010 and 2009, respectively — increased 14% from 2009. This revenue represents support from a variety of agencies, including the following:

(dollars in thousands)	**2010**	**2009**
Department of Health and Human Services	$ 433,875	$ 391,022
National Science Foundation	74,913	62,718
Department of Education	66,957	51,582
Department of Energy	21,451	19,972
Department of Navy	21,224	17,032
National Aeronautics and Space Administration	15,144	14,220
Department of Army	14,541	12,382
Department of Defense	11,072	10,775
Other federal agencies	27,621	24,533
Federal grants and contracts net revenue	$ 686,798	$ 604,236

Sales and Services revenue represents revenue from UCLA Health Systems, educational activities and auxiliary enterprises, net of scholarship allowance. This revenue increased to $2.5 billion in 2010 from $2.3 billion in 2009, a total increase of $204 million or 9%. Of this increase, 63% (or $129 million) was derived from the UCLA Health System. Revenue grew primarily due to a combination of contract rate increases, a more advantageous patient-payor mix, additional funding under the State's Medi-Cal program and increased outpatient volume. Sales from educational activities increased 14% (or $84.1 million) primarily within the compensation plans due to billing rate and volume increases for patient care within the School of Medicine. Sales from auxiliary enterprises — including on-campus student housing, off-campus housing, intercollegiate athletics, ASUCLA and parking services — decreased 3% (or $9.3 million) due in part to ticket sales for various athletics programs, particularly football, dropping by $4 million over the prior year and ASUCLA revenues falling by $3.7 million. In addition, the scholarship allowance offset allocated to auxiliaries increased by $1.6 million.

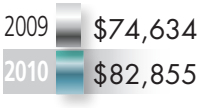
Sales and Services *(dollars in thousands)*	**2010**	**2009**	**Change**	**Change Over Prior Year**
UCLA Health System	$ 1,524,537	$ 1,395,441	$ 129,096	9.3%
Educational activities	677,478	593,295	84,183	14.2%
Auxiliary enterprises, net	300,575	309,881	(9,306)	-3.0%
Total	$ 2,502,590	$ 2,298,617	$ 203,973	8.9%

Private Gift revenue, considered nonoperating revenue, either comes directly from the donor or is held by The UCLA Foundation until needed. These funds generally are restricted to uses designated by the donor. In 2010, revenues totaled $189.8 million, representing a $4.9 million, or 2.6%, increase from 2009. Approximately 59% of these gifts came through The UCLA Foundation for various campus needs. The largest gift moving through the Foundation and onto the campus was for the Pauley Pavilion renovation.



Private Gifts *(dollars in thousands)*	**2010**	**2009**	**Change**	**Change Over Prior Year**
Gifts	$ 77,519	$ 72,788	$ 4,731	6.5%
Transfers from The UCLA Foundation	112,271	112,119	152	0.1%
Total	$ 189,790	$ 184,907	$ 4,883	2.6%

Other Revenues, net of scholarship and other allowances, along with nonoperating revenues, totaled $82.9 million for 2010, an increase of 11%. The majority, $52.4 million attributed to operating revenue, comes from a variety of self-supporting units, such as the Arthur Ashe Student Health and Wellness Center, UCLA Live, the Department of Cultural and Recreational Affairs and parking fines and forfeitures. The nonoperating revenues increased due primarily to the higher return on investments received this year.



Other Revenues, net *(dollars in thousands)*	**2010**	**2009**	**Change**	**Change Over Prior Year**
Service Enterprises	$ 2,557	$ 2,829	$ (272)	-9.6%
Other self-supporting units	49,866	48,809	1,057	2.2%
Total other operating revenues	52,423	51,638	785	1.5%
Other nonoperating revenues	30,432	22,996	7,436	32.3%
Total	$ 82,855	$ 74,634	$ 8,221	11.0%

Expenses Associated with Core Activities

UCLA's expenses associated with core activities for 2010, including those classified as nonoperating expenses, totaled slightly over $4.3 billion, up $35.9 million from just under $4.3 billion in 2009. Almost two-thirds of UCLA's core expenses are related to salaries and benefits of academic and administrative staff working on behalf of the University. Other expenses are related to goods and services used for operation of the core activities of the campus, depreciation of capital assets, and scholarship and fellowship payments to students.

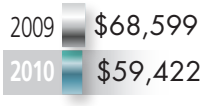
Categories of expenses, as well as activity trends, are described below:

Expenses *(dollars in thousands)*	**2010**	**Percent of Total**	**2009**	**Percent of Total**	**Change**	**Change Over Prior Year**
Salaries and benefits	$ 2,781,613	64.28%	$ 2,706,993	63.08%	$ 74,620	2.8%
Scholarships and fellowships	59,422	1.37%	68,599	1.60%	(9,177)	-13.4%
Utilities	43,399	1.00%	52,257	1.22%	(8,858)	-17.0%
Supplies and materials	460,137	10.63%	496,647	11.57%	(36,510)	-7.4%
Depreciation	237,387	5.49%	239,280	5.58%	(1,893)	-0.8%
Interest expense	19,033	0.44%	1,588	0.04%	17,445	1,098.6%
Other expenses, net	726,436	16.79%	726,206	16.92%	230	0.0%
Total	$ 4,327,427	100.00%	$ 4,291,570	100.00%	$ 35,857	0.8%

Salaries and Benefits cover over 39,000 employees filling approximately 29,000 full-time equivalent positions, a 5% decrease over the prior year.

In 2010, salaries and benefits grew by $75 million or 3%. Salaries and wages increased by $35.2 million or 1.6%. Academic wages increased $12.3 million or 1.5%, and vacation and sick leave accruals increased $22.5 million, mainly due to imposed furloughs leaving vacation hours to accrue for future use. Benefits increased by $40 million or 8%, primarily due to the increase in annual pension contributions of $14.5 million. Additionally, employer health insurance costs increased $21.1 million due to increases in premiums.

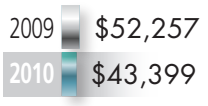
Scholarships and Fellowships, representing payments of financial aid made directly to students and reported as operating expenses, decreased by 13.4%.



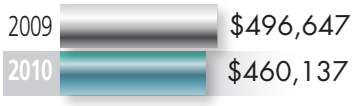
(dollars in thousands)	2010	2009	Change	Change Over Prior Year
Scholarships and fellowships	$ 252,525	$ 233,194	$ 19,331	8.3%
Less: scholarship allowance	(193,103)	(164,595)	$ (28,508)	17.3%
Total	$ 59,422	$ 68,599	$ (9,177)	-13.4%

Scholarship allowances, representing financial aid fee waivers awarded by the campus (also forms of scholarships and fellowships) and third-party payments to the campus on behalf of students, increased in 2010 by 17.3% to $193.1 million. However, scholarship allowances are reported as an offset to revenue, not as an operating expense. On a combined basis, as the campus continues its commitment to provide financial support for needy students, financial aid in all forms grew to $252.5 million in 2010 from $233.2 million in 2009 or 8.3%.

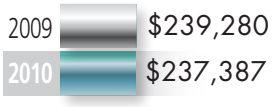
Utilities — consisting of natural gas, electricity, water and sewer, and utilities services — decreased to $43.4 million, an additional decrease of 17% in 2010 after a 4% decrease in 2009. For 2010, over 85% of utility expenditures can be attributed to natural gas ($19.8 million) and electricity ($17.3 million), with a decrease of $4.9 million and $3 million, respectively, attributed to conservation efforts.



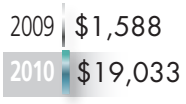
Supplies and Materials decreased by $36.5 million or 7.4%, primarily due to non-capitalizeable equipment declining by $19.5 million. Other decreases were attributed to purchases made in 2009 not repeated in 2010, mainly $5.9 million in non-research-related supplies and materials. The remaining variance is due to a number of small reductions across the University that are not individually significant.



Depreciation and Amortization expenses stayed relatively the same from year to year, decreasing 0.8% or $1.9 million during fiscal year 2010.



Interest Expense for capital leases and revenue bonds, reported as a nonoperating expense, increased by $17.4 million in 2010 to $19 million. Due to the decrease in construction this year, less interest was capitalized, increasing interest expense by $12.1 million. In addition, interest expense increased by $4.6 million resulting from the issuance of Medical Center 2009 series F bonds.



Other Expenses Associated with Core Activities remained relatively unchanged from the prior year. This includes travel, rent, insurance, repairs and maintenance, and other nonoperating expenses.

Other Nonoperating Activities

UCLA's nonoperating activities are non-cash transactions, and therefore not available to be used to support operating expenses, include the net appreciation or depreciation in the fair value of investments and the gain or loss on the disposal of capital assets. Since the majority of investment activity is recorded at a systemwide level, the appreciation and depreciation of the fair market value of investments is not significant from year to year. A $2.3 million loss was recorded for disposal of capital assets, primarily for equipment that is no longer being used.

Other Changes in Net Assets

Similar to the other nonoperating activities discussed above, other changes in net assets are also not available to support UCLA's operating expenses in the current year. State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital assets. Transfers consist of two groups: those from core activities that support campus operations and transfers specific to capital assets. UCLA's existing facilities continue to need renewal, modernization and seismic correction, for which funding comes from a variety of sources each year. For 2010, capital appropriations from the state for the new Life Science Building decreased by $52.5 million due to its substantial completion. Gifts and grants for real estate, equipment and library collections decreased by $5.9 million to $50 million in 2010. This includes decreases in state grants of $19.8 million offset by an increase in private gifts and grants of $13.9 million.

Transfers from core activities and transfers from capital accounts increased to $79.7 million for 2010. Funding provided for core activities totaled $17.5 million, and funding for capital projects totaled $62.3 million for 2010.

The indirect cost recovery for facilities and the administrative costs of contract and grant activity totaled $183 million in 2010, an increase of $18.9 million over the prior year. A majority of these funds ($180 million for 2010) are transferred to the Office of the President as part of the closing processes and then reallocated at a designated rate to the campus in the new year. The University has an agreement with the state regarding the disbursal of federal reimbursement. Approximately 20% of the reimbursement accrues directly to the University for costs related to federal contract and grant activity, and this is the source of the University's off-the-top overhead funds. The remaining 80% of the federal reimbursement is used in two ways: 55% is disbursed to general funds ($31 million goes to state general funds and the balance comes directly back to the campus' general funds); and the remaining 45% is the source of the University Opportunity Fund. By prior agreements, indirect cost recoveries associated with Clinical Trials ($3.2 million for 2010), University Extension ($41,000 for 2010) and the California Institute for Regenerative Medicine ($3.2 million for 2010) are either retained or returned to the campus at 100%.

Intercampus transfers totaled $313.7 million for 2010, an increase of $6.9 million from 2009. This includes the allotment of indirect cost funds from the prior year's recovery, transfers of funding between campuses for related projects and short-term investment income.

Unexpended plant fund transfers totaled $32 million for 2010, a decrease of $67.8 million from 2009. The majority of funds transferred for 2010 were applicable to transfers of borrowed funds for the funding of plant projects, including the issuance of the Medical Center Bonds offset by repayments made on past borrowings.

Retirement of indebtedness totaled $96 million for 2010; this includes principal ($47.4 million) and interest payments ($70.9 million) transferred to the Office of the President for debt service related to financing and amortization schedules, less funds transferred from the Office of the President ($21.3 million), mainly to provide the campus with funding for the General Revenue Bond debt service payment.

THE CAMPUS' CASH FLOWS

The statement of cash flows presents the significant sources and uses of cash. UCLA's cash, primarily held in demand deposit accounts, is minimized by sweeping available cash balances into investment accounts managed by the Office of the President on a daily basis.

A summary comparison of cash flows for 2010 and 2009 is as follows:

Cash Flow *(dollars in thousands)*	**2010**	**2009**	**Change**
Cash received from operations	$ 3,857,216	$ 3,516,920	$ 340,296
Cash payments for operations	(4,070,156)	(3,948,166)	(121,990)
Net cash used by operating activities	(212,940)	(431,246)	218,306
Net cash provided by noncapital financing activities	827,557	723,807	103,750
Net cash used by capital and related financing activities	(75,440)	(392,979)	317,539
Net cash provided by investing activities	30,380	21,968	8,412
Cumulative effect of change in accounting principles	-	-	-
Intercampus and transfer activities	(80,022)	15,152	(95,174)
Net (decrease) increase in cash	489,535	(63,298)	552,833
Cash, beginning of year	1,579,031	1,642,329	(63,298)
Cash, end of year	$ 2,068,566	$ 1,579,031	$ 489,535

UCLA's cash in demand deposit accounts increased by $489.5 million, from $1.58 billion in 2009 to $2.07 billion in 2010. Primarily, cash was increased by the state educational and capital appropriations ($610 million), gifts received for both operations and capital ($213 million) and the issuance of revenue bonds ($183.2 million). Cash was used primarily to fund operations ($213 million), purchase capital assets ($217 million) and make debt payments ($88 million).

LOOKING FORWARD

The campus, and the University, is a world center of learning, known for generating a steady stream of talent, knowledge and social benefits, and has always been at the center of California's capacity to innovate. The excellence of UCLA's programs attracts the best students; leverages hundreds of millions of dollars in state, federal and private funding; and promotes the discovery of new knowledge that fuels economic growth.

In the midst of the state fiscal crisis earlier this decade, in 2006, the University entered into a six-year Compact with Governor Schwarzenegger. The funding agreement was a comprehensive statement of the minimum resources needed for the University to accommodate enrollment growth and sustain the quality of the institution. The provisions of the Compact called for the state to provide increased funding for 2009 and 2010 of at least $223 million each year to the University system. However, in 2009 the state's ongoing budget deficit led the governor to first fund the Compact provisions in 2009, consistent with the Compact, and then propose a 10% reduction from that higher education budget. In this way, at least initially, the Compact protected the University system from greater budget reductions in 2009. Permanent and one-time cuts to the University's systemwide budget for 2009 totaled $814 million, although these reductions were to be partially offset by state Stabilization Funds authorized by the federal economic stimulus act. For 2010, permanent and one-time cuts in state funding totaled $637 million (from the level of state funding in 2008), essentially erasing the gains made over the earlier period of the Compact. These cuts, along with unfunded mandatory cost increases for 2009 and 2010, mean that during 2010, permanent state funding systemwide is nearly $1.1 billion below the level called for by the Compact. Given the ongoing fiscal crisis, it is unlikely that the state will be situated to restore earlier funding reductions, let alone provide the funding increases for 2011 called for in the Compact. This adds to the need to increase educational fees.

In response to state funding cutbacks, UC President Mark G. Yudof and Board of Regents Chairman Russell Gould created the UC Commission on the Future to develop a new vision that preserves excellence and access as the University navigates the state's fiscal crisis.

UCLA remains highly competitive in attracting federal grant and contract revenue, with fluctuations in awards received closely paralleling trends in the budgets of federal research granting agencies. Over two-thirds of UCLA's federal research revenue comes from two agencies, the Department of Health and Human Services, primarily through the National Institutes of Health, and the National Science Foundation. Other agencies that figure prominently in the campus awards are the Department of Education, Department of Defense, the National Aeronautics and Space Administration and the Department of Energy. While the federal government works through its own financial constrains, there is a bipartisan effort underway to focus on innovation and competitiveness for the nation. In 2010, UCLA attracted $114 million in additional awards for research funding from federal economic stimulus funds made available by the American Recovery and Reinvestment Act (ARRA), representing approximately 10% of the campus' federal awards in 2010. Federal agencies have now awarded most of their ARRA funds, and the funds are expected to be fully expended by 2014. Systemwide, the University is a unique national resource for helping the nation address competitiveness and economic initiatives.

UCLA and The UCLA Foundation's remarkable achievement in recent years in obtaining private support is a testament to UCLA's distinction as a leader in philanthropy among the nation's colleges and universities, and the high regard in which its alumni, corporations, foundations and other supporters hold the campus and the University. The level of private support underscores the continued confidence among donors in the quality of UCLA's programs and the importance of its mission. At the same time, private support in 2011 will likely continue to reflect the changes in the economy and financial markets, the effect of which is not determinable at this time.

The UCLA Health System has demonstrated very positive financial results, although it continues to face financial and competitive challenges in the regional market, along with the added costs and responsibilities related to functioning as an academic institution. The demand for healthcare services and the cost of providing them continue to increase significantly. In addition to the rising costs of salaries, benefits and medical supplies, along with the costs of maintaining and upgrading facilities, UCLA's Health System also faces additional costs associated with new technologies, biomedical research, the education and training of healthcare professionals and the care of a disproportionate share of the medically underserved in California. Other than Medicare and Medi-Cal (California's Medicaid program), health insurance plans do not recognize the added cost of teaching in their payments to academic medical centers. Over the last few years, Medicare margins have declined as a result of payment reductions. Changes to the Medi-Cal program will likely limit or reduce the rates of payment growth to the medical centers in future years. Also, as a result of state legislation, the medical centers face capital requirements to ensure that facilities can maintain uninterrupted operations following a major earthquake. While the state has provided additional capital to meet these requirements, the level of support provided will not cover the full cost to the University. Other sources of capital are required.

The continuing financial success of the UCLA Health System is predicated on a multifaceted strategy, which includes competing in commercial markets and offering high quality regional services. Positive results in commercial contracts have helped address the lack of support for medical education and care for the poor. Further, the UCLA Health System remains competitive by reducing costs through improved efficiencies, making strategic investments and expanding its presence in the market through stronger links with other providers and payers. Payment strategies must recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment and invest in infrastructure and program expansion.

Capital improvements for student on-campus housing continue to move forward with the addition of 2,500 bed spaces and the renovation of existing high-rise residence halls. The current goal is to complete these projects by the end of 2018.

UCLA continues to assess its long-term capital requirements, as an array of many categories of facilities is needed to meet its education, research and public service goals. Since the state's financial circumstances have resulted in the suspension of a large portion of state general obligation and lease revenue bond funding for capital projects, the University is working with the state to implement alternate financing strategies for some of these projects. Support for the campus' capital program will continue to be provided by a combination of sources, including the State of California, external financing, gifts and other sources. There also are plans for additional capital projects that are not considered to be state-supportable. This is a continuing process that is amended as required to include projects when gifts or other supplemental resources are obtained or financing plans are developed.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information provided by UCLA, including written statements (as outlined above) or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements — other than statements of historical facts that address activities, events or developments that UCLA expects or anticipates will or may occur in the future — contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. UCLA does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

TRANSMITTAL LETTER

The accompanying Financial Statements reflect the financial position and the results of operations of the University of California, Los Angeles (UCLA), for the fiscal year ended June 30, 2010.

The UCLA Financial Statements are not individually audited, but rather are audited as part of the Consolidated Annual Financial Report of the University of California by the firm PricewaterhouseCoopers, whose report is transmitted to The Regents.

The accompanying Financial Statements and Management's Discussion and Analysis detail only local campus activity. This separate UCLA Annual Financial Report, while not separately audited, is prepared from the official University of California records and accounts, which are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board (GASB).

In compliance with GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, the financial activity of the legally separate, tax-exempt UCLA Foundation can be found discretely recorded on the campus' financial statements under a separate column titled "Foundation."

Respectfully submitted,

Allison Baird-James
Associate Vice Chancellor/Controller
Corporate Financial Services

UNIVERSITY OF CALIFORNIA, *LOS ANGELES*

STATEMENT OF NET ASSETS

At June 30, 2010 and 2009 *(in thousands of dollars)*

	CAMPUS		FOUNDATION	
	2010	2009	2010	2009
ASSETS				
Current assets				
Cash	$ 32,674	$ 29,104	$ 633	$ 1,779
Short-term investments	2,034,320	1,548,355	142,724	150,742
Investment of cash collateral	-	-	21,336	25,687
Investments held by trustees	150	145	-	-
Accounts receivable, net	599,049	533,698	3,636	5,075
Pledges receivable, net	8,168	6,090	59,777	53,077
Current portion of notes and mortgages receivable, net	6,764	6,390	9	16
Inventories	41,496	38,614	-	-
Other current assets	42,571	39,948	8	216
Total current assets	**2,765,192**	**2,202,344**	**228,123**	**236,592**
Noncurrent assets				
Investments	-	-	1,135,328	944,864
Investments held by trustees	5,665	5,767	-	-
Pledges receivable	10,120	10,344	144,769	120,152
Notes and mortgages receivable, net	72,484	67,929	501	486
Land, buildings, equipment, libraries and collections, net	4,645,628	4,615,930	22,455	27,704
Other noncurrent assets	69,347	55,243	24,038	23,109
Total noncurrent assets	**4,803,244**	**4,755,213**	**1,327,091**	**1,116,315**
Total assets	**$ 7,568,436**	**$ 6,957,557**	**$ 1,555,214**	**$ 1,352,907**
LIABILITIES				
Current Liabilities				
Accounts payable	$ 317,892	$ 373,614	$ 1,282	$ 1,189
Accrued salaries and benefits	200,230	189,666	-	-
Deferred revenue	228,156	213,379	-	-
Current portion of long-term debt	20,993	20,305	21,336	25,687
Funds held for others	-	-	166,682	118,524
Other current liabilities	108,288	91,336	5,407	5,226
Total current liabilities	**875,559**	**888,300**	**194,707**	**150,626**
Noncurrent Liabilities				
Federal refundable loans	56,170	54,399	-	-
Obligations under life income agreements	-	-	37,932	37,415
Long-term debt	855,502	729,239	-	-
Other noncurrent liabilities	179,447	140,397	-	-
Total noncurrent liabilities	**1,091,119**	**924,035**	**37,932**	**37,415**
Total liabilities	**$ 1,966,678**	**$ 1,812,335**	**$ 232,639**	**$ 188,041**
NET ASSETS				
Invested in capital assets, net of related debt	**$ 3,769,133**	**$ 3,865,710**	**$ -**	**$ -**
Restricted:				
Nonexpendable:				
Endowments	-	-	556,239	482,845
Annuity and life income funds	-	-	13,390	13,805
Expendable:				
Endowments	-	-	115,851	100,475
Annuity and life income funds	-	-	11,781	15,390
Funds functioning as endowment	-	-	413,720	384,596
Grants and contracts	-	-	-	-
Gifts	186,455	173,296	207,979	167,596
Loans	41,926	41,237	-	-
Capital projects	(5,897)	(82,066)	-	-
Debt service	20,940	16,586	-	-
Appropriations	3,603	2,465	-	-
Other	70,391	65,462	-	-
Total restricted	**317,418**	**216,980**	**1,318,960**	**1,164,707**
Unrestricted	**1,515,207**	**1,062,532**	**3,615**	**159**
Total net assets	**$ 5,601,758**	**$ 5,145,222**	**$ 1,322,575**	**$ 1,164,866**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA, *LOS ANGELES*

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

At June 30, 2010 and 2009 *(in thousands of dollars)*

	CAMPUS		FOUNDATION	
	2010	2009	2010	2009
OPERATING REVENUES				
Student tuition and fee, net	$ 445,373	$ 401,513	$ -	$ -
Grants and contracts:				
Federal	638,689	572,559	-	-
State	61,564	56,011	-	-
Private	184,062	168,475	-	-
Local	37,162	40,127	-	-
Sales and services:				
Medical centers	1,524,537	1,395,441	-	-
Educational activities	677,478	593,295	-	-
Auxiliary enterprises, net	300,575	309,881	-	-
Private gifts	-	-	144,135	97,472
Other operating revenues, net	52,423	51,638	-	-
Total operating revenues	**3,921,863**	**3,588,940**	**144,135**	**97,472**
OPERATING EXPENSES				
Salaries and wages	2,278,595	2,243,390	-	-
Benefits	503,018	463,603	-	-
Scholarships and fellowships	59,422	68,599	-	-
Utilities	43,399	52,257	-	-
Supplies and materials	460,137	496,647	-	-
Depreciation	237,387	239,280	-	-
Campus foundation grants	-	-	136,497	150,494
Other operating expenses	725,120	726,206	795	964
Total operating expenses	**4,307,078**	**4,289,982**	**137,292**	**151,458**
Operating loss	**(385,215)**	**(701,042)**	**6,843**	**(53,986)**
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	601,155	521,823	-	-
State financing appropriations	22,645	29,730	-	-
Build America Bonds federal interest subsidies	3,760	-	-	-
Federal Pell Grant	44,349	31,677	-	-
Private gifts	189,790	184,907	-	-
Investment income	-	-	25,639	(23,028)
Other	30,432	22,107	-	-
Increase (Decrease) in fair value of investments	-	-	77,365	(206,317)
Interest expense	(19,033)	(1,588)	-	-
Gain (loss) on disposal of capital assets, net	(2,348)	(5,816)	-	-
Other nonoperating revenues (expenses)	(1,316)	889	(5,491)	2,029
Net nonoperating revenues (expenses)	**869,434**	**783,729**	**97,513**	**(227,316)**
Income (loss) before other changes in net assets	**484,219**	**82,687**	**104,356**	**(281,302)**
OTHER CHANGES IN NET ASSETS				
State capital appropriations	2,025	54,535	-	-
Capital gifts and grants	50,023	55,933	-	-
Permanent endowments	-	-	53,353	45,297
Transfers	(79,731)	9,067	-	-
Increase in net assets	**456,536**	**202,222**	**157,709**	**(236,005)**
NET ASSETS				
Net assets, beginning of year	5,145,222	4,943,000	1,164,866	1,400,871
Cumulative effect of a change in accounting principle	-	-	-	-
Net assets, end of year	**$ 5,601,758**	**$ 5,145,222**	**$ 1,322,575**	**$ 1,164,866**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA, *LOS ANGELES*

TRANSFERS

At June 30, 2010 and 2009 *(in thousands of dollars)*

	CAMPUS	
	2010	2009
Current (to)/from retirement of indebtedness	$ (209)	$ (113)
Current:		
Intrafund	-	(20)
Intercampus	313,712	306,808
Interfund	(151,321)	(122,530)
Net revenue of bonds and other indebtedness programs	-	(105)
Indirect cost recovery	(308)	(295)
Net adjustments		
Unexpended plant	32,090	99,675
Retirement of indebtedness	(96,541)	(112,259)
Investment in plant:		
Intrafund transfer assets	2,587	(1,572)
Intrafund transfer depreciation	(417)	(128)
Renewals and replacements	-	-
Loan	632	784
Indirect cost recovery	(179,956)	(161,178)
Total transfers	**$ (79,731)**	**$ 9,067**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA, *LOS ANGELES*

STATEMENT OF CASH FLOWS

At June 30, 2010 and 2009 *(in thousands of dollars)*

	CAMPUS		FOUNDATION	
	2010	2009	2010	2009
CASH FLOWS FOR OPERATING ACTIVITIES				
Student tuition and fees, net	$ 436,883	$ 401,672	$ -	$ -
Grants and contracts	890,912	859,042	-	-
Receipts from sales and services of:				
Medical centers	1,509,923	1,354,347	-	-
Educational activities	671,941	587,141	-	-
Auxiliary enterprises, net	303,381	303,836	-	-
Collection of loans from students and employees	10,681	10,882	-	-
Private gifts	-	-	108,422	98,764
Payments to employees	(2,242,163)	(2,236,377)	-	-
Payments to UCRP	(7,570)	(51)	-	-
Payments for retiree health benefits	(52,554)	(51,628)	-	-
Payments for other employee benefits	(434,938)	(403,626)	-	-
Payments to suppliers and utilities	(1,258,446)	(1,171,597)	-	-
Payments for scholarships and fellowships	(59,422)	(68,599)	-	-
Loans issued to students and employees	(15,063)	(14,599)	-	-
Operating expenses and grants	-	-	(137,941)	(159,149)
Other receipts (payments)	33,495	(1,689)	(4,051)	(2,298)
Net cash used by operating activities	**(212,940)**	**(431,246)**	**(33,570)**	**(62,683)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	601,155	521,823	-	-
Federal Pell Grant	44,349	31,677	-	-
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	-	-	43,097	37,090
Other private gifts	187,887	189,752	-	-
Other receipts (payments)	(5,834)	(19,445)	-	-
Net cash provided by noncapital financing activities	**827,557**	**723,807**	**43,097**	**37,090**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Commercial paper financing:				
Proceeds from issuance	-	-	-	-
Payments of principal	-	-	-	-
Interest paid	-	-	-	-
State capital appropriations	8,837	46,653	-	-
State financing appropriations	8,877	15,951	-	-
Build America Bonds federal interest subsidies	3,760	-	-	-
Capital gifts and grants	25,148	49,071	-	-
Proceeds from debt issuance	183,193	23,790	-	-
Proceeds from the sale of capital assets	-	-	-	-
Purchases of capital assets	(216,610)	(490,460)	-	-
Refinancing/prepayment of outstanding debt	(10,283)	-	-	-
Principal paid on debt and capital leases	(14,375)	(17,048)	-	-
Interest paid on debt and capital leases	(63,987)	(20,936)	-	-
Net cash used by capital and related financing activities	**(75,440)**	**(392,979)**	**-**	**-**
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments:				
Short-term investment pool	-	-	-	-
Other investments	-	-	127,022	157,661
Purchase of investments:				
Short-term investment pool	-	-	-	-
Other investments	-	-	(168,006)	(150,135)
Investment income, net of investment expenses	30,380	21,968	30,311	19,126
Net cash provided by investing activities	**30,380**	**21,968**	**(10,673)**	**26,652**
Cumulative effect of change in accounting principles	**-**	**-**	**-**	**-**
Intercampus transactions	**(291)**	**4,513**	**-**	**-**
Transfers	**(79,731)**	**9,067**	**-**	**-**
Net (decrease) increase in cash	**489,535**	**(64,870)**	**(1,146)**	**1,059**
Cash, beginning of year	1,577,459	1,642,329	1,779	720
Cash, end of year	**$ 2,066,994**	**$ 1,577,459**	**$ 633**	**$ 1,779**

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2010 and 2009

ORGANIZATION/FINANCIAL REPORTING ENTITY

The University of California (the University) was founded in 1868 as a public, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation "The Regents of the University of California," which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26-member independent governing board (The Regents) is appointed by the governor and approved by the State Senate. Various University programs and capital-outlay projects are funded through appropriations from the state's annual Budget Act. The University's financial statements are discretely presented in the state's general purpose financial statements as a component unit. Additionally, the University's financial statements — which include 10 campuses, five medical centers, a statewide agricultural extension program, along with a number of other fiduciary responsibilities — are subjected to an independent annual audit.

The Los Angeles campus of the University of California (UCLA) was founded in 1919 and is financially the largest campus in the 10-campus University of California system. The financial statements included in this annual report present the combined activities of the Los Angeles campus, including the UCLA Medical Center. The University of California system is subjected to an annual audit of the consolidated financial statements, of which UCLA is a part. The financial statements for the Los Angeles campus have not been individually audited.

The Associated Students of UCLA (ASUCLA)'s financial data for the fiscal year ended June 30, 2010 and 2009 have been included in the financial statements in order to reflect total financial activity of the UCLA campus. ASUCLA conducts activities on the UCLA campus pursuant to the Statement of Understanding of ASUCLA's Relationship with the University, dated June 28, 1974.

The UCLA Foundation is a nonprofit, public-benefit corporation organized for the purpose of accepting and administering the full range of private contributions for the campus. The financial activities of the separately incorporated Foundation are not reflected within the campus' records until such time as gifts are transferred from the Foundation to the campus. However, in accordance with the statements of the Governmental Accounting Standards Board (GASB) detailed below, Foundation activity is disclosed on the UCLA financial statements in a separate column.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the UCLA campus have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and all statements of the Financial Accounting Standards Board issued through November 30, 1989, using the economic resources measurement focus and the accrual basis of accounting.

GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, was adopted by the University during the year ended June 30, 2010. This statement requires capitalization of identifiable intangible assets in the statement of net assets and provides guidance for amortization of intangible assets unless they are considered to have an indefinite useful life. Implementation of Statement No. 51 had no effect on the University's net assets or changes in net assets for the years ended June 30, 2010 and 2009.

GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, was also adopted by the University during the year ended June 30, 2010. Statement No. 53 requires the University to report its derivative instruments at fair value. Changes in fair value for effective hedges that are achieved with derivative instruments are to

be reported as deferrals in the statement of net assets. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are to be classified as investment derivative instruments. Changes in fair value of those derivative instruments are to be reported as net appreciation or depreciation in the fair value of investments. Upon adoption of Statement No. 53, retrospective application is required.

The University has determined that the interest rate swaps entered into in conjunction with certain variable-rate Medical Center Pooled Revenue Bonds are derivative instruments that meet the criteria for an effective hedge. Certain of the interest rate swaps are considered hybrid instruments under Statement No. 53, since at the time of execution, the fixed rate on each of the swaps was off-market and the University received an up-front payment. As such, these swaps are comprised of a derivative instrument, an at-the-market swap that is an effective hedge, and a companion instrument, a borrowing represented by the up-front payment. The unamortized amount of the borrowings for the companion instruments was $31 million at June 30, 2009.

The fair value of interest rate swaps was not previously reported on the statement of net assets. Changes in the fair value of interest rate swaps previously were not recognized in the statement of revenues, expenses and changes in net assets. Since the interest rate swaps meet the criteria for an effective hedge, there was no restatement for the cumulative effect on previously reported net assets as of July 1, 2008. However, the University has restated the 2009 financial statements for purposes of presenting comparative information for the year ended June 30, 2010.

The effect of the changes from the adoption of Statement No. 53 on the University's financial statements for the year ended June 30, 2009 was as follows:

(dollars in thousands) **Changes to Statement of Net Assets**	*Year Ended June 30, 2009* **As Previously Reported**	**Effect of Adoption of Statement No. 53**	**As Restated**
Other noncurrent assets	$ 15,312	$ 39,931	$ 55,243
Noncurrent assets	4,715,282	39,931	4,755,213
Total assets	6,917,626	39,931	6,957,557
Other noncurrent liabilities	100,466	39,931	140,397
Noncurrent liabilities	884,104	39,931	924,035
Total liabilities	1,772,404	39,931	1,812,335

The significant accounting policies of UCLA are summarized as follows:

Cash. UCLA considers all balances in demand deposit accounts to be cash. All other highly liquid cash equivalents are considered to be short-term investments.

Short-term investments. UCLA participates in a temporary investment pool that is administered by the Office of the President. Income earned on investments is distributed based on average investments in the pool. This pool invests primarily in U.S. Treasury securities, commercial paper and short-term corporate notes with cost approximating market value. These temporary investments are considered cash equivalents for the purposes of the statement of cash flows.

Intermediate-term investments. UCLA also participates in the University's Total Return Investment Pool (TRIP) administered by the Office of the President. The investments are maintained for an intermediate term, i.e., a minimum of three years. These investments are recorded only on the University books and not on UCLA's financial statements. Investments authorized by the Regents for TRIP include a diversified portfolio of equity and fixed income securities. These investments are recorded at fair value. Dividend and interest income, net of administrative fees, is recorded on UCLA's books as it is distributed from the Office of the President. Upon the sale of UCLA's shares in TRIP, realized gains or losses are recorded on UCLA's books.

Investments. Investments for endowment monies and other similar funds are primarily administered centrally by the Office of the President and are not reflected on the UCLA local financial statements. These funds consist of endowments, funds functioning as endowment, and annuity and life income funds. Endowments require that the principal be invested in perpetuity, with the income used in accordance with the terms specified by the donor. Funds functioning as endowment are primarily gifts and related gains that the University treats as endowments, with the exception that any portion of these funds may be expended at the University's discretion. Annuity and life income funds are held in trust by the University with the annuity or income paid periodically to designated beneficiaries; principal of these funds vests with the University, and payments cease upon the death of the beneficiaries.

Monies are invested by the treasurer of The Regents, and the income is transferred to individual campuses annually. A substantial portion of the net assets of the endowment and similar funds participate in a general endowment pool. Investments include equities, high-yield equities, bonds and real estate.

Derivative financial instruments. Derivative instruments are recorded at fair value as either assets or liabilities in the statement of net assets. Futures contracts, foreign currency exchange contracts and forward contracts to purchase securities on a to-be-announced basis are valued at the last sales price on the last day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service, when available. Financial institutions or independent advisors have estimated the fair value of the interest rate swaps using quoted market prices when available or discounted expected future net cash flows.

The University has entered into interest rate swap agreements to limit the exposure of its variable rate debt to changes in market interest rates. Interest rate swap agreements involve the exchange with a counterparty of fixed- and variable-rate interest payments periodically over the life of the agreement without exchange of the underlying notional principal amounts. The net differential to be paid or received is recognized over the life of the agreements as an adjustment to interest expense. The University's counterparties are major financial institutions.

Derivatives are recorded at fair value as either assets or liabilities in the statement of net assets. Certain derivatives are determined to be hedging derivatives and designated as either a fair value or cash flow hedge. Under hedge accounting, changes in the fair value of hedging derivatives are considered to be deferred inflows (for hedging derivatives with positive fair values) or deferred outflows (for hedging derivatives with negative fair values). Deferred inflows are included with other liabilities and deferred outflows with other assets in the statement of net assets.

Changes in the fair value of derivatives that are not hedging derivatives are recorded as net appreciation or depreciation of investments in the statement of revenues, expenses and changes in net assets.

Accounts receivable, net. Accounts receivable, net of allowance for uncollectible amounts, includes reimbursements due from state and federal sponsors of externally funded research, patient billings, accrued income on investments and other receivables. Other receivables include local government and private grants and contracts, educational activities and amounts due from students, employees and faculty for services.

Pledges receivable, net. Unconditional pledges of private gifts to the campus to be received in the future, net of allowance for uncollectible amounts, are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges, including pledges of endowments and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met.

Notes and mortgages receivable, net. Loans to students, net of allowance for uncollectible amounts, are provided from federal student loan programs and from other University sources. Home mortgage loans, primarily to faculty, are provided from the University's Short-Term Investment Pool and from other campus sources. Mortgage loans provided by the Short-Term Investment Pool are classified as investments, and loans provided by other sources are classified as mortgages receivable in the statement of net assets.

Inventories. Inventories, consisting primarily of supplies and merchandise for resale, are valued at cost, typically determined using the weighted average method, which is not in excess of net realizable value.

Capital assets. Land, infrastructure, buildings and improvements, intangible assets, equipment, library collections and special collections are recorded at cost at the date of acquisition, or estimated fair value at the date of donation in the case of gifts. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual value. Intangible assets include easements, land rights, trademarks, patents and other similar arrangements. Capital leases are recorded at the present value of future minimum lease payments. Significant additions, replacements, major repairs and renovations to infrastructure and buildings are generally capitalized if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. Equipment with a cost in excess of $5,000 and a useful life of more than one year is capitalized. All costs of land, library collections, and special collections are capitalized.

Depreciation is calculated using the straight-line method over the estimated economic life of the asset. Leasehold improvements are amortized using the straight-line method over the shorter of the life of the applicable lease or the economic life of the asset.

Estimated economic lives are generally as follows:

Infrastructure	25 years
Buildings and improvements	15–33 years
Equipment	2–20 years
Computer software	3–7 years
Intangible assets	2 years–indefinite
Library books and materials	15 years

Capital assets acquired through federal grants and contracts in which the federal government retains a reversionary interest are also capitalized and depreciated.

Inexhaustible capital assets — such as land or special collections that are protected, preserved and held for public exhibition, education or research, including art, museum, scientific and rare book collections — are not depreciated.

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned on tax-exempt borrowings during the temporary investment of project-related borrowings.

Deferred revenue. Deferred revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as student tuition and fees, and fees for housing and dining services.

Funds held for others. Funds held for others result from the Foundation acting as an agent or fiduciary on behalf of UCLA.

Federal refundable loans. Certain loans to students are administered by the campus with funding primarily supported by the federal government. The campus' statement of net assets includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Obligations under life income agreements. Obligations under life income agreements represent actuarially determined liabilities under gift annuity and life income contracts.

Pollution remediation obligations. Upon an obligating event, the campus estimates the components of any expected pollution remediation costs and recoveries from third parties. The costs, estimated using the expected cash flow technique, are accrued as a liability.

Net assets. Net assets are classified for accounting and reporting purposes into the following categories:

Invested in capital assets, net of related debt. This category includes all of the campus' capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction or improvement of those assets.

Restricted. The campus classifies net assets resulting from transactions with purpose restrictions as restricted net assets until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. Net assets subject to externally imposed restrictions, which must be retained in perpetuity by the University, are classified as nonexpendable net assets. Such assets include the University's permanent endowment funds. Because the Office of the President administers these funds, UCLA's local financial statements do not reflect balances for nonexpendable assets.

Expendable. Net assets whose use by the campus is subject to externally imposed restrictions that can be fulfilled by actions of the campus pursuant to those restrictions or that expire by the passage of time are classified as expendable net assets.

Unrestricted. Net assets that are neither restricted nor invested in capital assets, net of related debt, are classified as unrestricted net assets. Unrestricted net assets may be designated for specific purposes by management or The Regents. Substantially all unrestricted net assets are allocated for academic and research initiatives or programs, or for capital programs.

Expenses are charged to either restricted or unrestricted net assets based upon a variety of factors, including consideration of prior and future revenue sources, the type of expense incurred, the campus budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost.

Revenues and expenses. Operating revenues of UCLA include receipts from student tuition and fees, grants and contracts for specific operating activities, and sales and services from medical centers, educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of the UCLA campus and medical centers are presented in the statement of revenues, expenses and changes in net assets as operating activities.

Certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the campus are mandated by the GASB to be recorded as nonoperating revenues, including state educational appropriations, certain federal grants for student financial aid, private gifts and investment income, since the GASB does not consider them to be related to the principal operating activities of the University.

The Foundation was established to financially support the University. Private gifts to the Foundation are recognized as operating revenues on the Foundation's statements since, in contrast to UCLA, such contributions are fundamental to the core mission of the Foundation. When the gift is transferred from the Foundation to the campus, the campus records the revenue as nonoperating revenue.

Nonoperating revenues and expenses include state educational appropriations (for the support of UCLA operating expenses), state financing appropriations, Build America Bonds federal interest subsidies, federal Pell Grants, private gifts for other than capital purposes, investment income, net unrealized appreciation or depreciation in the fair value of investments, interest expense, and gain or loss on the disposal of capital assets.

State capital appropriations and capital gifts and grants are classified as other changes in net assets.

Student tuition and fees. Substantially all of the student tuition and fees provide for current operations of the campus. A small portion of the student fees, reported as capital gifts and grants, is required for debt service associated with student union and recreational centers. Certain waivers of student tuition and fees considered to be scholarship allowances are recorded as an offset to revenue.

State appropriations. The State of California provides appropriations to the University, which are allocated to the campuses on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses are incurred to support either educational operations or other specific operating purposes. State financing appropriations provide for principal and interest payments associated with lease-purchase agreements with the State Public Works Board and are also reported as nonoperating revenue. State appropriations for capital projects are recorded as revenue under other changes in net assets when the related expenditures are incurred. Special state appropriations for AIDS, tobacco and breast cancer research are reported as grant operating revenue.

Grant and contract revenue. UCLA receives grant and contract revenue from governmental and private sources. The campus recognizes revenue associated with the direct costs of sponsored programs as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs are at cost reimbursement rates negotiated with the University's federal cognizant agency, the U.S. Department of Health and Human Services. For the fiscal year ended June 30, 2010, the facilities and administrative cost recovery totaled $183.2 million, $148.6 million from federally sponsored programs and $34.6 million from other sponsors. For the fiscal year ended June 30, 2009, the facilities and administrative cost recovery totaled $164.3 million, $132.5 million from federally sponsored programs and $31.8 million from other sponsors.

The majority of the recovery of facilities and administrative costs from contract and grant activity are transferred to the Office of the President as part of the closing process and then reallocated at a designated rate to the campus in the next fiscal year. The amount transferred for 2010 was $180 million; the amount transferred for 2009 was $161.2 million. Facilities and administrative cost recovery not transferred, but retained by the campus as authorized by the Office of the President, is associated with clinical-trial projects funded by private sponsors ($3.2 million for 2010, $3.1 million for 2009) and UCLA Extension contract- and grant-sponsored projects ($41,000 for 2010, $52,000 for 2009).

Medical center revenue. Medical center revenue is reported at the estimated net realizable amounts from patients and third-party payers, including Medicare, Medi-Cal and others, for services rendered, as well as estimated retroactive adjustments under reimbursement agreements with third-party payers. Laws and regulations governing Medicare and Medi-Cal are complex and subject to interpretation. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that estimated amounts accrued could change significantly based upon settlement or as additional information becomes available.

Scholarship allowances. The campus recognizes certain scholarship allowances, including both financial aid and fee waivers, as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center and other fees, and the amount that is paid by the student or by third parties made on behalf of the student. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

Scholarship allowances in the following amounts are recorded as an offset to revenues for the years ended June 30, 2010 and 2009:

(dollars in thousands) **Scholarship Allowance**	**2010**	**2009**
Student tuition and fees	$ 158,059	$ 131,153
Sales and services of auxiliary enterprises	35,044	33,442
Total	$ 193,103	$ 164,595

Retiree health benefits expense. The University established the University of California Retiree Health Benefit Trust (UCRHBT) to allow certain University locations and affiliates, including UCLA, to share the risks, rewards and costs of providing for retiree health benefits and to accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. The Regents serves as Trustee of UCRHBT and has the authority to amend or terminate the Trust.

The UCRHBT provides retiree health benefits to retired employees of the campus. Contributions from the campus to the UCRHBT are made to a cost-sharing single-employer health plan administered by the University. The campus is required to contribute at a rate assessed each year by the UCRHBT. As a result, the campus' required contributions are recognized as an expense in the statement of revenues, expenses and changes in net assets. The financial records of the UCRHBT are reported within the University's Annual Financial Report.

UCRP benefits expense. The University of California Retirement Plan (UCRP) provides retirement benefits to retired employees of UCLA. Contributions from the campus to the UCRP are made to a cost-sharing single-employer-defined benefit pension plan administered by the University. The campus is required to contribute at a rate assessed each year by the UCRP. As a result, the campus' required contributions, if any, are recognized as an expense in the statement of revenues, expenses and changes in net assets. The financial records of the UCRP are reported within the University's Annual Financial Report.

Compensated absences. UCLA accrues annual leave, including employer-related costs, for employees at rates based upon length of service and job classification, and compensatory time based upon job classification and hours worked.

Endowment spending. Under provisions of California law, the Uniform Management of Institutional Funds Act allows for investment income, as well as a portion of realized and unrealized gains, to be expended for the operational requirements of University programs.

Tax exemption. The University is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). Because the University is a state institution, related income received by the University is also exempt from federal tax under IRC Section 115(a). In addition, the University is exempt from state income taxes imposed under the California Revenue and Taxation Code. The Foundation is exempt under Section 501(c)(3).

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Although management believes the estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made, and actual amounts could differ from those estimates.

Comparative information. In connection with the preparation of the June 30, 2010 statement of revenues, expenses and changes in net assets, the University concluded that $31.7 million of federal Pell Grants should have been reported as nonoperating revenues rather than federal grants and contracts for the year ended June 30, 2009.

The effect on the prior period financial statements is not material. However, management elected to make the revisions in classification to the 2009 presentation to conform to the 2010 presentation. This revision in classification to UCLA's 2009 financial statements resulted in a decrease in operating revenues and an increase in nonoperating revenues of $31.7 million. Additionally, cash flows used by operating activities and cash flows provided by noncapital financing activities have been increased by $31.7 million. This revision had no effect on the previously reported decrease in net assets; total assets, liabilities and net assets; or net decrease in cash and cash equivalents.

1. CASH AND SHORT-TERM INVESTMENTS

The University maintains centralized management for substantially all of its cash. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis. At June 30, 2010 and 2009, the carrying amount of UCLA's equity in the Treasurer's investment, transferred to the Treasurer's Office as part of the University's investment, was $2.03 billion and $1.55 billion, respectively, compared with bank balances of $32.7 million and $29.1 million, respectively. The timing of deposits in transit, varying from year to year, is the primary difference.

2. INVESTMENTS HELD BY TRUSTEES

UCLA has entered into agreements with trustees to maintain trusts for long-term debt requirements. All investments held by trustees are insured, registered or held by the campus' trustee or custodial bank, as fiduciary for the bondholder or as agent for the University.

The trust agreements for long-term debt permit trustees to invest in U.S. and state government or agency obligations, commercial paper or other corporate obligations meeting certain credit rating requirements.

Noncurrent investments held by trustees are for the future payment of principal and interest in accordance with various indenture and other long-term debt requirements. The fair value of these investments was $5.7 million at June 30, 2010 and $5.8 million at June 30, 2009. This balance represents the unspent proceeds plus accumulated investment income of State Public Works revenue bonds that are held by the trustee.

UCLA's deposits into the trusts, or receipts from the trust, are classified as a capital and related financing activity in the statement of cash flows as it is related to long-term debt requirements. Investment transactions initiated by trustees in conjunction with the management of the trust assets and payments from the trust to third parties are not included in the campus' statement of cash flows.

3. ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for uncollectible amounts at June 30, 2010 and 2009, are as follows:

(dollars in thousands)	STATE & FEDERAL GOVERNMENT	MEDICAL CENTERS	OTHER	TOTAL
At June 30, 2010				
Accounts receivable	$ 120,795	$ 383,989	$ 197,753	$ 702,537
Allowance for uncollectible amounts	(125)	(93,523)	(9,840)	(103,488)
Accounts receivable, net	$ 120,670	$ 290,466	$ 187,913	$ 599,049
At June 30, 2009				
Accounts receivable	$ 98,074	$ 361,644	$ 169,138	$ 628,856
Allowance for uncollectible amounts	(125)	(85,791)	(9,242)	(95,158)
Accounts receivable, net	$ 97,949	$ 275,853	$ 159,896	$ 533,698

Other accounts receivable are primarily related to private grants and contracts, physicians' professional fees, investment sales, tuition and fees, and auxiliary enterprises.

4. PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2010 and 2009 is summarized as follows:

(dollars in thousands)	**2010**	**2009**
Total pledges receivable outstanding	$ 19,852	$ 17,670
Less: Unamortized discount to present value	(482)	(716)
Allowance for uncollectible pledges	(1,082)	(520)
Total pledges receivable, net	18,288	16,434
Less: Current portion of pledges receivable	(8,168)	(6,090)
Noncurrent portion of pledges receivable	$ 10,120	$ 10,344

5. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2010 and 2009, along with allowances for uncollectible amounts, are as follows:

(dollars in thousands)	**CURRENT**	**NONCURRENT NOTES**	**NONCURRENT MORTGAGES**	**TOTAL**
At June 30, 2010				
Notes and mortgages receivable	$ 7,226	$ 60,171	$ 14,243	$ 81,640
Allowance for uncollectible amounts	(462)	(1,810)	(120)	(2,392)
Notes and mortgages receivable, net	$ 6,764	$ 58,361	$ 14,123	$ 79,248
At June 30, 2009				
Notes and mortgages receivable	$ 6,896	$ 55,807	$ 13,677	$ 76,380
Allowance for uncollectible amounts	(506)	(1,435)	(120)	(2,061)
Notes and mortgages receivable, net	$ 6,390	$ 54,372	$ 13,557	$ 74,319

6. CAPITAL ASSETS, NET

The campus' capital asset activity for the years ended June 30, 2010 and 2009, is as follows:

(dollars in thousands)	2008	ADDITIONS	DISPOSALS	2009	ADDITIONS	DISPOSALS	2010
ORIGINAL COST							
Land	$ 85,495	$ 1,800	$ -	$ 87,295	$ 2,393	$ -	$ 89,688
Infrastructure	7,979	-	-	7,979	-	-	7,979
Buildings and improvements	4,505,560	312,486	(242)	4,817,804	294,165	(530)	5,111,439
Equipment	903,047	144,286	(63,323)	984,010	89,532	(77,830)	995,712
Intangible assets	23,558	4,686	(4,693)	23,551	5,433	(5,680)	23,304
Libraries and collections	529,533	27,284	(5,586)	551,231	34,568	(1,847)	583,952
Special collections	71,146	3,873	-	75,019	3,607	-	78,626
Construction in progress	583,282	47,799	-	631,081	(159,847)	-	471,234
Capital assets, at original cost	$ 6,709,600	$ 542,214	$ (73,844)	$ 7,177,970	$ 269,851	$ (85,887)	$ 7,361,934

(dollars in thousands)	2008	DEPRECIATION EXPENSE	DISPOSALS	2009	DEPRECIATION EXPENSE	DISPOSALS	2010
ACCUMULATED DEPRECIATION							
Infrastructure	$ 6,117	$ 145	$ -	$ 6,262	$ 145	$ -	$ 6,407
Buildings and improvements	1,462,473	148,867	(210)	1,611,130	144,500	1,039	1,756,669
Equipment	533,829	68,040	(56,889)	544,980	68,764	(73,084)	540,660
Intangible assets	14,792	4,711	(3,612)	15,891	4,708	(5,680)	14,919
Libraries and collections	373,450	17,517	(7,190)	383,777	19,271	(5,397)	397,651
Accumulated depreciation and amortization	$ 2,390,661	$ 239,280	$ (67,901)	$ 2,562,040	$ 237,388	$ (83,122)	$ 2,716,306
Capital assets, net	$ 4,318,939				$ 4,615,930		$ 4,645,628

7. DEBT

The University directly finances the construction, renovation and acquisition of facilities and equipment through the issuance of debt obligations. Both commercial paper, which provides for interim financing, and pooled revenue bonds are accounted for on a systemwide basis. Long-term financing reported at the campus level includes campus-specific revenue bonds, certificates of participation, mortgages and other borrowings, and capital-lease obligations.

UCLA's outstanding debt at June 30, 2010 and 2009, is as follows:

(dollars in thousands)	INTEREST RATES	MATURITY YEARS	2010	2009
LONG-TERM FINANCING				
Hospital Revenue Bonds Series 2004 & 2007, net	* 3.00 – 6.583 %	2011 – 2049	$ 657,524	$ 544,433
Mortgages and other borrowings	3.250 – 5.33 %	2011 – 2020	58,117	36,687
Capital lease obligations - state lease revenue bonds	* 2.7 – 5 %	2011 – 2023	129,215	136,155
Capital lease obligations	3.55 – 7.05%	2011 – 2015	31,639	32,269
Total long-term outstanding debt			$ 876,495	$ 749,544

*bond coupon rates are shown

Interest expense associated with financing projects during construction, net of any investment income earned on tax-exempt bond proceeds during construction, is capitalized. Total interest expense during the years ended June 30, 2010 and 2009 was $39.7 million and $34.4 million, respectively. Interest expense — net of investment income, totaling $20.7 million and $32.8 million — was capitalized during the years ended June 30, 2010 and 2009, respectively. The remaining $19 million in 2010 and $1.6 million in 2009 is reported as interest expense in the statement of revenues, expenses and changes in net assets.

Outstanding Debt Activity

Activity with respect to the campus' current and noncurrent debt for the years ended June 30, 2010 and 2009, is as follows:

(dollars in thousands)	REVENUE BONDS	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASE OBLIGATIONS	TOTAL
Year Ended June 30, 2010				
Current portion at June 30, 2009	$ 2,334	$ 1,148	$ 16,824	$ 20,306
Reclassification from noncurrent	1,525	12,455	-	13,980
Refinance or prepay of principal on bank loan	-	(10,283)	17,985	7,702
Principal payments and amortizations	(1,867)	(1,615)	(17,512)	(20,994)
Current portion at June 30, 2010	1,992	1,705	17,297	20,994
Noncurrent portion at June 30, 2009	542,099	35,539	151,600	729,238
New obligations	114,958	2,288	9,942	127,188
Reclassification to current	(1,525)	18,585	(17,985)	(925)
Noncurrent portion at June 30, 2010	655,532	56,412	143,557	855,501
Total	$ 657,524	$ 58,117	$ 160,854	$ 876,495
Year Ended June 30, 2009				
Current portion at June 30, 2008	$ 2,606	$ -	$ 20,057	$ 22,663
Reclassification from noncurrent	2,060	1,241	17,817	21,118
Refinance or prepay of principal on bank loan	-	-	-	-
Principal payments and amortizations	(2,333)	(93)	(21,050)	(23,476)
Current portion at June 30, 2009	2,333	1,148	16,824	20,305
Noncurrent portion at June 30, 2008	538,146	15,562	153,691	707,399
New obligations	6,014	21,218	15,726	42,958
Reclassification to current	(2,060)	(1,241)	(17,817)	(21,118)
Noncurrent portion at June 30, 2009	542,100	35,539	151,600	729,239
Total	$ 544,433	$ 36,687	$ 168,424	$ 749,544

University of California Revenue Bonds

Revenue bonds have financed various auxiliary, administrative, academic, medical center and research facilities of the University. They generally have annual principal and semiannual interest payments, serial and term maturities, contain sinking fund requirements and may have optional redemption provisions. Revenue bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents. Revenue bond indentures require the University to use the facilities in a way that will not cause the interest on the tax-exempt bonds to be included in the gross income of the bondholders for federal tax purposes.

General Revenue Bonds are collateralized solely by General Revenues as defined in the Indenture. General Revenues are certain operating and nonoperating revenues of the University consisting of gross student tuition and fees; facilities and administrative cost recovery from contracts and grants; revenues from educational, auxiliary and other activities; and other revenues, including unrestricted investment income. The General Revenue Bond indenture requires the University to set rates, charges and fees each year sufficient for General Revenues to pay for the annual principal and interest on the bonds and certain other financial covenants.

Limited Project Revenue Bonds are issued to finance auxiliary enterprises and are collateralized by a pledge consisting of the sum of the gross revenues of the specific projects. The indenture requires the University to achieve the sum of gross project revenues equal to 1.1 times debt service and maintain certain other financial covenants.

Multiple Purpose Projects Revenue Bonds are collateralized by a pledge of the net revenues generated by the enterprises. The Multiple Purpose Projects Revenue Bond indentures require the University to achieve net revenues after expenses and requirements for senior lien indentures equal to 1.25 times debt service and maintain certain other financial covenants.

Medical Center Pooled Revenue Bonds are issued to finance the University's medical center facilities and are collateralized by a "joint-and-several" pledge of the gross revenues of all five of the University's medical centers. Medical center gross revenues are excluded from General Revenues. The Medical Center Pooled Revenue Bond indenture requires the medical centers to set rates, charges and fees each year sufficient for the medical center gross revenues to pay for the annual principal and interest on the bonds and certain other financial covenants.

Medical Center Revenue Bonds have also financed certain facilities of the University's five medical centers and are collateralized by a pledge of the specific gross revenues associated with each medical center. The Medical Center Revenue Bond indentures require each medical center to achieve debt service coverage of 1.1 times to 1.2 times (depending on the indenture); set limitations on encumbrances, indebtedness, disposition of assets and transfer services; and maintain certain other financial covenants.

Mortgages and Other Borrowings

Mortgages and other borrowings consist of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. The mortgages are collateralized by real property. As part of the University, UCLA may use uncollateralized bank lines of credit with commercial banks to supplement commercial paper to provide interim financing for buildings and equipment. Outstanding borrowings under line-of-credit commitments totaled $0 and $6.2 million at June 30, 2010 and 2009, respectively.

Capital Leases

Capital leases entered into with other lessors, primarily for the replacement hospital and equipment, totaled $160.9 million and $168.4 million in 2010 and 2009, respectively. The majority of that amount, $129.2 million, is attributed to State Lease Revenue Bonds issued to finance the UCLA replacement hospitals in Santa Monica and Westwood; the bonds mature in 2023.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to June 30, 2010, and thereafter are as follows:

(dollars in thousands) Year Ending June 30	REVENUE BONDS	CERTIFICATES OF PARTICIPATION	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASES STATE	CAPITAL LEASES OTHER	TOTAL PAYMENTS	PRINCIPAL	INTEREST
2011	$ 33,545	$ -	$ 2,395	$ 13,744	$ 11,193	$ 60,877	$ 21,288	$ 39,589
2012	36,300	-	15,529	13,733	9,599	75,161	36,547	38,614
2013	36,664	-	1,941	13,754	7,373	59,732	22,614	37,118
2014	36,673	-	1,941	13,704	4,559	56,877	20,803	36,074
2015	36,673	-	1,941	13,690	1,415	53,719	18,657	35,062
2016–2020	185,873	-	8,581	68,239	-	262,693	102,335	160,358
2021–2025	193,533	-	-	40,802	-	234,335	101,710	132,625
2026–2030	193,085	-	-	-	-	193,085	79,085	114,000
2031–2035	193,397	-	-	-	-	193,397	99,045	94,352
2036–2040	193,803	-	-	-	-	193,803	123,685	70,118
2041–2045	194,381	-	-	-	-	194,381	154,165	40,216
2046–2050	95,202	-	-	-	-	95,202	87,995	7,207
Total future debt service	1,429,129	-	32,328	177,665	34,139	1,673,261	$ 867,929	$ 805,332
Less interest component of future payments	749,598	-	4,784	48,450	4,299	805,332		
Principal portion of future payments	679,531	-	27,544	129,215	29,840	867,929		
Deferred premium & deferred financing, net - Medical Center	8,566	-	-	-	-	8,566		
Derivative instrument - Medical Center pooled revenue bonds	(30,573)	-	30,573	-	-	-		
Total long-term outstanding debt	$ 657,524	$ -	$ 58,117	$ 129,215	$ 29,840	$ 876,495		

Future payments in which UCLA participates, but not included above, are the systemwide state capital leases that are held at the Office of the President. The principal portion totals $149.4 million, and interest $77.4 million, through 2035.

8. SELF-INSURANCE AND OTHER LIABILITIES

Self-Insurance Programs

The University is self-insured for medical malpractice, workers' compensation, employee healthcare and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded on a systemwide basis when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred but not reported. Each campus funds the self-insurance liability through predetermined rates applied to payroll and other expenses. These amounts are reflected as operating expenses in UCLA's statement of revenues, expenses and changes in net assets. UCLA's financial statements do not reflect any liability amounts for self-insurance claims, as these estimated liabilities are recorded on a systemwide basis.

Other Liabilities

UCLA's other liabilities — primarily employee leave and other compensated absences with similar characteristics, accrued interest and other general liabilities such as cash received undistributed, at June 30, 2010 and 2009 — are as follows:

	2010		2009	
(dollars in thousands)	**CURRENT**	**NONCURRENT**	**CURRENT**	**NONCURRENT**
Other liabilities				
Compensated absences	$ 66,573	$ 124,736	$ 59,097	$ 98,199
Accrued interest	4,633	-	3,944	-
Pollution remediation	796	2,047	773	2,077
Other	36,286	52,664	27,522	190
Total	$ 108,288	$ 179,447	$ 91,336	$ 100,466

Other Noncurrent Liabilities

Changes in other noncurrent liabilities for the years ended June 30, 2010 and 2009, are as follows:

(dollars in thousands)	**COMPENSATED ABSENCES**	**OTHER**	**TOTAL**
Year Ended June 30, 2010			
Liabilities at June 30, 2009	$ 98,199	$ 2,267	$ 100,466
New obligations	69,457	53,430	$ 122,887
Reclassification to current	(42,920)	(986)	$ (43,906)
Liabilities at June 30, 2010	$ 124,736	$ 54,711	$ 179,447
Year Ended June 30, 2009			
Liabilities at June 30, 2008	$ 91,489	$ 729	$ 92,218
New obligations	56,216	2,819	$ 59,035
Reclassification to current	(49,506)	(1,281)	$ (50,787)
Liabilities at June 30, 2009	$ 98,199	$ 2,267	$ 100,466

Payments for compensated absences are generally made from a variety of revenue sources, including state educational appropriations, grants and contracts, auxiliary enterprises and endowment income, or other revenue sources that support the employee's salary.

9. ENDOWMENTS AND FOUNDATION GIFTS

Endowments are administered either by the University or by the campus Foundation. The book value and market value for endowments for the years ended June 30, 2010 and 2009, are as follows:

	2010		2009	
(dollars in thousands)	**BOOK VALUE**	**MARKET VALUE**	**BOOK VALUE**	**MARKET VALUE**
Endowments - regental	$ 540,027	$ 1,106,634	$ 486,306	$ 986,355
Endowments - foundation	993,573	924,415	873,291	812,077
Total	$ 1,533,600	$ 2,031,049	$ 1,359,597	$ 1,798,432

The Regents' Endowments

The endowments held by The Regents are administered on a systemwide basis, and related investments are not reflected on UCLA's separate financial statements. The portion of investment returns earned on endowments held by The Regents and distributed each year to support current operations is based on a rate (stated in dollars per share) that is approved by The Regents. The total distribution from endowments held by The Regents to UCLA was $38.6 million and $37.8 million for the years ended June 30, 2010 and 2009, respectively.

Campus Foundation

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern The UCLA Foundation, its assets are dedicated for the sole benefit of UCLA. During the years ended June 30, 2010 and 2009, gifts of $112 million ($49 million from endowment investments and $63 million from current funds) and $112 million ($52 million from endowment investments and $60 million from current funds), respectively, were transferred to UCLA from The UCLA Foundation.

The financial activity of the separately incorporated Foundation is discretely recorded in UCLA's financial statements under a separate column titled "Foundation."

10. OPERATING EXPENSES BY FUNCTION

Operating expenses, by functional classification, for the years ended June 30, 2010 and 2009, are as follows:

(dollars in thousands)	**2010**	**2009**
Instruction	$ 1,143,524	$ 1,117,861
Research	676,315	635,425
Public service	96,140	91,685
Academic support	319,987	321,369
Student services	68,428	70,056
Institutional support	138,551	144,443
Operations and maintenance of plant	85,722	96,821
Student financial aid	61,864	71,197
Medical centers	1,223,432	1,224,887
Auxiliary enterprises	238,457	243,858
Depreciation	237,387	239,280
Other	17,271	33,100
Total	$ 4,307,078	$ 4,289,982

11. THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

Substantially all full-time employees of UCLA participate in the University of California Retirement System (UCRS), which is administered by the University. The UCRS consists of The University of California Retirement Plan (UCRP), a single-employer-defined benefit plan, and the University of California Retirement Savings Program (UCRSP), which includes four defined contribution plans with several investment portfolios generally funded with employee non-elective and elective contributions. The Regents has the authority to establish and amend the benefit plans.

The UCRP provides lifetime retirement income, disability protection and survivor benefits to eligible employees. Benefits are based on the average of the highest three years of compensation; age; and years of service, and are subject to limited cost-of-living increases.

Contributions to the UCRP may be made by the campus and by the employees. The rates for contributions as a percentage of payroll are determined annually pursuant to The Regents' funding policy and are based on recommendations of the consulting actuary. The Regents determine the portion of the total contribution to be made by the campus and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements. As a result of the funded status of the UCRP during the year ended June 30, 2009, there were no required campus or employee contributions other than for service credit buybacks.

The actuarial value of UCRP assets and the actuarial accrued liability associated with the University's campuses and medical centers using the entry-age normal-cost method as of July 1, 2009, the date of the latest actuarial valuation, were $34.8 billion and $36.8 billion, respectively, resulting in a funded ratio of 94.8 %. The net assets held in trust for pension benefits attributable to the campuses and medical centers included in the UCRP Statement of Plan's Fiduciary Net Assets were $34.6 billion and $32.3 billion at June 30, 2010 and June 30, 2009, respectively.

For the years ended June 30, 2010 and 2009, the University's campuses and medical centers contributed a combined $64.8 million and $0.4 million, respectively. The University's annual UCRP benefits expense for its campuses and medical centers was $1.6 billion for the year ended June 30, 2010. As a result of contributions that were less than the UCRP benefits expense, the University's obligation for UCRP benefits attributable to its campuses and medical centers increased by $1.5 billion for the year ended June 30, 2010.

The UCRSP plans (DC Plan, Supplemental DC Plan, 403(b) Plan and 457(b) Plan) provide savings incentives and additional retirement security for all eligible employees. The DC Plan accepts both pre-tax and after-tax employee contributions. The Supplemental DC Plan accepts employer contributions on behalf of certain qualifying employees. The 403(b) and 457(b) plans accept pre-tax employee contributions, and the campus may also make contributions on behalf of certain members of management. Benefits from the plans are based on participants' mandatory and voluntary contributions, plus earnings, and are immediately vested.

Information related to plan assets and liabilities, as they relate to campus employees, is not readily available. Additional information on the retirement plans can be obtained from the 2009-2010 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Plan and the University of California PERS–VERIP.

12. RETIREE HEALTH PLANS

The University administers single-employer health plans to provide health and welfare benefits — primarily medical, dental and vision benefits — to eligible retirees of the University of California and its affiliates. The Regents has the authority to establish and amend the benefit plans.

The contribution requirements of the eligible retirees and the participating University locations, such as UCLA, are established and may be amended by the University. Membership in the UCRP is required to become eligible for retiree health benefits. Contributions toward benefits are shared with the retiree. The University determines the employer's contribution. Retirees are required to pay the difference between the employer's contribution and the full cost of the health insurance. Retirees employed by the campus prior to 1990 are eligible for the maximum employer contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least five years of service. Retirees employed by the campus after 1989 and not rehired after that date are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 % of the maximum employer contribution, increasing to 100 % after 20 years of service.

Participating University locations, such as the campus, are required to contribute at a rate assessed each year by the UCRHBT. The contribution requirements are based on projected pay-as-you-go financing requirements. The assessment rates were $3.12 and $3.09 per $100 of UCRP-covered payroll, resulting in campus contributions of $52.6 million and $51.7 million for the years ended June 30, 2010 and 2009, respectively.

The actuarial value of UCRHBT assets and the actuarial accrued liability associated with the University's campuses and medical centers using the entry-age normal-cost method as of July 1, 2009, the date of the latest actuarial valuation, were $76.9 million and $14.5 billion, respectively. The net assets held in trust for pension benefits on the UCRHBT's Statement of Plan Fiduciary Net Assets were $69.4 million at June 30, 2010. For the years ended June 30, 2010 and 2009, combined contributions from the University's campuses and medical centers were $283.5 million and $278.5 million, respectively, including an implicit subsidy of $49.5 million and $44.1 million, respectively. The University's annual retiree health benefit expense for its campuses and medical centers was $1.6 billion and $1.5 billion for the years ended June 30, 2010 and 2009, respectively. As a result of contributions that were less than the retiree health benefit expense, the University's obligation for retiree health benefits attributable to its campuses and medical centers totaling $3.7 billion at June 30, 2010, increased by $1.4 billion and $1.2 billion for the years ended June 30, 2010 and 2009, respectively.

Information related to plan assets and liabilities as they relate to individual campuses and medical centers is not readily available. Additional information on the retiree health plans can be obtained from the 2009-2010 annual reports of the University of California and the University of California Health and Welfare Program.

13. COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled $544.5 million and $354.14 million at June 30, 2010 and 2009, respectively.

UCLA leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2010 and 2009 were $57.1 million and $66 million, respectively. The terms of operating leases extend through March 2023.

Future minimum payments on operating leases with initial or remaining noncancelable terms in excess of one year are as follows:

Year Ending June 30 *(dollars in thousands)*	**MINIMUM ANNUAL LEASE PAYMENTS**
2011	$ 34,990
2012	27,157
2013	21,399
2014	15,800
2015	12,366
2016–2020	33,094
2021–2025	2,623
Total	$ 147,429

Contingencies

Substantial amounts are received and expended by UCLA, including the UCLA medical centers, under federal and state programs and is subject to audit by cognizant governmental agencies. This funding relates to research, student aid, medical center operations and other programs. UCLA management believes that any liabilities arising from such audits will not have a material effect on UCLA's separate financial positions.

The University and the campus foundations are contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, University management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the University's financial position.